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News release

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Contacts	Cătălin Codreanu, Senior Media and Events Officer, PwC România catalin.codreanu@pwc.com
Pages	2

Global companies could release €1.3 trillion from working capital to increase capital investment

€1.3 trillion could be released from the balance sheets of globally listed companies if they take steps to address working capital efficiency, according to the findings in PwC's latest report *Navigating Uncertainty: 2018 Annual Global Working Capital Study*.

The report estimates that this cash release would be enough for global companies to boost their capital investment by 55% without needing to access additional funding or putting their cash flows under pressure.

Despite working capital performance improving for the first time since 2014, global companies are facing a tough road ahead with an increasingly difficult cash environment. The report highlights three challenges to financial performance:

- While company revenues are up by 10% on last year, the cash conversion ratio has declined by 6%, indicating that **converting cash is becoming harder**.
- An annual rate of 3.6% in **declining capital expenditure** is suggesting that companies are committing less cash to investments, which poses a potential threat to their growth in the long-term.
- Current monetary policy tightening, as well as uncertainty around global trade, is **increasing the cost of cash** to companies.

With working capital being the cheapest source of cash, businesses need to optimise working capital performance so that they can maintain operating cash flow and free up funds for investment in an uncertain fiscal marketplace.

One strategy that the report spotlights is supply chain financing, which companies can use to drive greater supplier liquidity, supply chain stability, and efficient payables to maximise their working capital. However, these programmes are geared towards larger suppliers that make the biggest impact at the most acceptable levels of risk for funders. They often ignore smaller suppliers, who need it the most:

- 77% of small and medium enterprises (SMEs) experience slow payments from large corporates.
- Over a third of SMEs spend a moderate to significant amount of time and resources chasing large corporations for payment.

"Efficient cash flow is utterly important for companies that don't have large cash reserves, especially when avoiding loans for current spendings is the target. When cash reserves are considerable, steps in the need of using the money for development or for projects that bring added value for the company and a competitive advantage in the market", said Monica Biota, Partner, Assurance Services, PwC Romania.

By extending supply chain financing options to SMEs, companies can help smaller businesses to access cash at competitive rates and benefit from cash flow that is more predictable.

"Amid today's uncertainty, companies need to focus on what they can control. Working Capital, and especially Inventory & Receivables, represents a significant opportunity for companies to maximise their operational cash flow", said Monica Movileanu, Partner, Assurance, Financial and accounting consultancy services, PwC Romania.

You can download the report here.

Ends.

Notes for the editors.

1. The report analyses the performance of 14,694 global firms, with revenues totalling €37.5 trillion.
2. PwC's working capital team analysed their respective working capital performance in receivables, payables, and inventories over a five year period.

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