Nordea

EXECUTIVE SUMMARY

The working capital wake-up call

Unlocking trapped value

Nordea

There's no time to waste

Our latest study makes the case for urgent action to improve Nordic working capital performance

A €65 billion wake-up call for Nordic businesses

There's no ignoring it: Nordic businesses are lagging behind in working capital performance.

Our latest study looked at 184 public Nordic companies. These companies are generally considered to be well managed. Yet the median company in this group ties up 36% more net working capital (NWC) than the median company in the rest of Europe.

It's a huge opportunity. We found an aggregate capital release potential of around €65 billion if these 184 companies were to improve their NWC/sales to the best in class in their peer group. That's equivalent to 11% of their total market cap — plus we modelled a further 4% positive impact on valuation from making the improvement.

But if best-in-class seems like too much of a stretch, around half of this potential could be realised just by improving to the average European NWC/sales level.

Every Nordic country has a multi-billion euro opportunity

Doing nothing is not an option

We conducted equivalent research in 2015 and discovered a similar amount of cash locked up in Nordic businesses then. This is not news, yet corporates have achieved negligible change in the past 12 months.

Our research here at Nordea has shown that while treasuries see working capital as an important part of their responsibilities, it's not a top priority or an area that many treasury teams are measured on. But there's greater urgency than there was a year ago. Regardless of your sector or ownership, every business is affected by the low-growth, low interest-rate market that we're in.

In these environments, buyer demand is hard to find and cash stores aren't generating meaningful income. Controlling working capital is the best lever you've got to drive the critical financial ratio of return on capital employed (ROCE). Focusing on operating income alone is only the top half of the equation. In fact, moving to best in class for NWC/sales would increase ROCE by 6 percentage points (pp) on average.

Our research shows: working capital is not a top priority for Nordic treasurers

Do you have a KPI for?

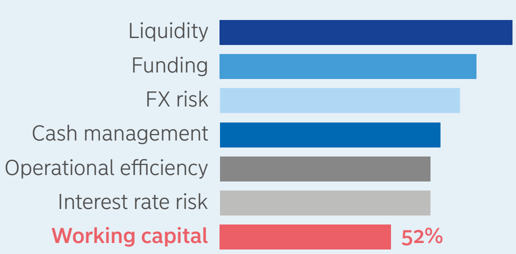


Fig 1. Source: Nordea Treasury KPIs report

What are your top responsibilities?

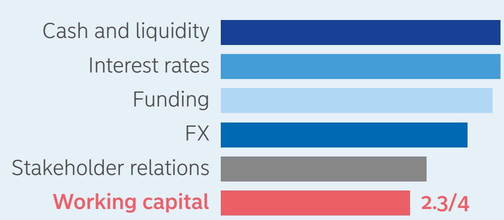


Fig 2. Source: Nordea Treasury 2017 report

If treasury doesn't take the lead, investors will

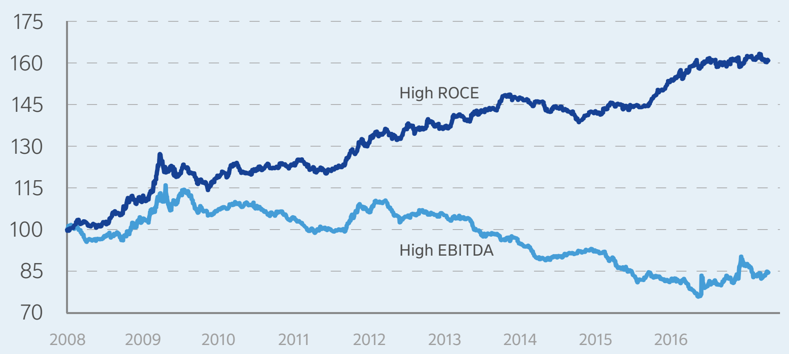
Why is ROCE so significant? Our models show that improving ROCE directly affects corporate market valuations. High ROCE businesses have outperformed high EBITDA businesses on share price comprehensively since 2008.

This relationship between working capital and market performance via ROCE is not as widely known as it should be. Few companies give guidance or set targets on NWC or metrics related to it, such as cash flow or returns, instead preferring to guide on simpler and more widely used metrics, such as margins.

But with other sources of growth drying up, and the effects of improved NWC/sales so visible in terms of share price and company performance, activist investors will soon start asking difficult questions about where returns are going to come from. And that will put pressure on the CEO and the board — who will put pressure on the CFO and treasury to make improvements happen.

Wouldn't it be better to lead that conversation?

A basket of high ROCE businesses has outperformed high EBITDA businesses since 2008



Get informed and take action

The first step is to get informed. Talk to an outside advisor like Nordea, who can give you an impartial view of your performance based on a full view of the market. Benchmark your business not just against organisations in a similar market space as yours, but against organisations that have a similar operational and financial makeup to yours — they're your true peer group, who can reveal your true potential.

Learn from the experience of private equity firms as inspiration — the ones that truly understand the importance of getting returns from an efficient balance sheet. Our study evaluated private equity backed firms after their IPOs and found a sustained advantage in working capital performance: they average 10pp lower NWC/sales at the time of IPO, and maintain that. Our interviews with these firms suggest that the only way to replicate their performance is to use all of the tools in the working capital toolbox: including renegotiating payment terms, factoring receivables, selling inventory, using supply chain finance, and implementing streamlined processes across the P2P and O2C cycles.

But regardless of the tools employed, the most important ingredient in success is full organisational commitment, from board-level down. That means you need to bring the CEO and CFO in early: show them the scale of the opportunity on the table. Show them that in low-growth, low-interest economies, ROCE matters more than margins. And show them that effective working capital is already rewarded in the share price — and as investors wake up, it'll only become more prominent.

Now's the time to take action.

Learn more

Get your copy of our working capital report, complete with in-depth analysis of 16 representative businesses, advice on the latest tools and practices for driving NWC improvements, and data tables with key indicators on your peers. Visit:

insights.nordea.com/go/working-capital

About Nordea

Nordea is among the ten largest universal banks in Europe in terms of total market capitalisation and has around 11 million customers, 30,000 employees and approximately 650 branch office locations. The Nordea share is listed on the Nasdaq Stockholm, Nasdaq Helsinki and Nasdaq Copenhagen exchanges.

We have a broad expertise across the wide range of products, services and solutions that we provide within banking, asset management and insurance. In Nordea we build trusted relationships through our strong engagement with both customers and society.

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