Creating Value through Working Capital

Cash for Transformation

Working Capital Trends in the DACH Retail Sector

2019/20

Preface

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Welcome to PwC's 2019 working capital study of the 50 leading retail companies within the DACH Region.

Working capital performance has improved slightly since 2017, despite further revenue growth, while companies are enhancing their focus on working capital and cash flow management. A key driver of year-on-year improvement is an optimised inventory level of approximately - 0.5 days DIO (days inventories outstanding) in the 2018 fiscal year.

One of the most challenging trends in the retail sector is the rapid change in customer behaviour. Customers are demanding a wide variety of products, available (and deliverable) in very short timeframes with fast and efficient return options.

Both traditional retailers and online players are currently adjusting their business models in the face of these changes. Cash investments to move towards online business or store applications are therefore essential. Retailers must continue to optimise their operational processes to minimise their working capital position, and to use the cash this releases for transformation.

The study covers the key working capital trends among the leading DACH retails, in various retail subsectors and at various level of performance. Our analysis has assessed key drivers of the working capital trends, which indicate €2.3bn net working capital (NWC) in the retailers' balance sheets, and shows how retailers can enhance cash and working capital in a sustainable way.

These improvements are necessary, as EBITDA and EBIT ratios have deteriorated over the last five years and high free cash flow is required to manage digitalisation.

PwC can support you in transforming your business model.

Executive summary

€2.3bn
of NWC is tied up in balance sheets of the 50 leading retail companies.

Overall NWC
Year-on-year (YoY) performance improved by 0.5 days. The 5-year trend shows a fall of 1.0 day deterioration.

22 of the 50 companies
have shown a negative NWC performance trend since 2014.

DPO
performance is stable at +0.1 days YoY. However, performance has improved by +1.3 days over the last 5 years.

DIO
performance has improved by 0.5 days over the last year. The 5-year trend shows a deterioration of 1.6 days.

DSO
performance is stable, with YoY delta of 0.1 days. However, DSO has worsened by 0.7 days since 2014.

5 out of 7 sectors
have seen an improvement in NWC days since 2014.

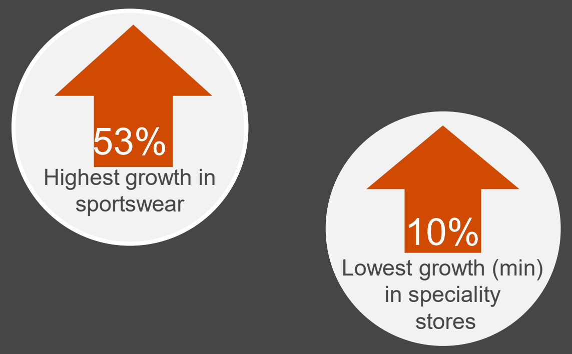
Food and hypermarkets
NWC performance has deteriorated by 1% since 2014. The 5-year trend shows stable development.

Online retail
NWC performance has improved by 5.6% since 2014. The YoY trend also shows an improvement of 0.5%.

The retail sector has shown overall revenue growth over the last five years

50% increase in e-commerce sales since FY14

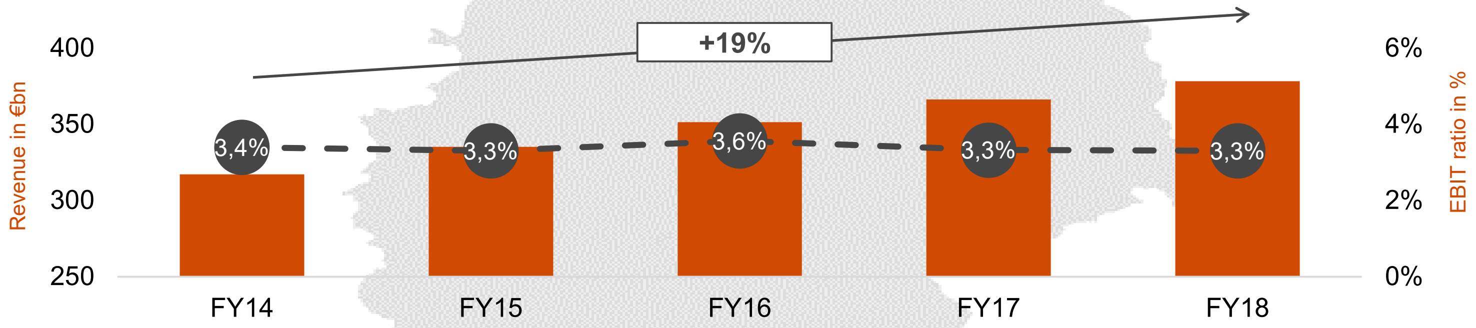
Revenue trend 2014-2018



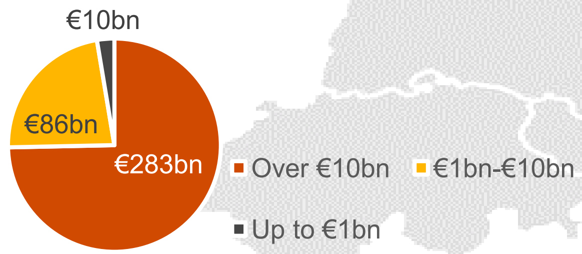
Revenues for the 50 leading companies in the German, Austrian and Swiss retail sectors have increased by 19% since FY14. This number has been bolstered an overall sales increase of 3% in FY18.

Nevertheless, EBIT decreased slightly over the same period.

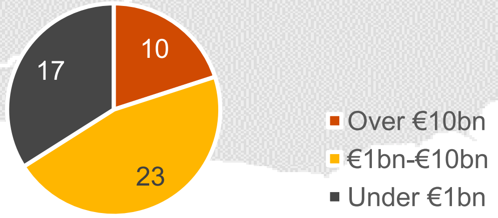
YoY revenue trend and EBIT development in the DACH retail sector



Revenue distribution of companies (FY18, split by revenues)



Number of companies (FY18, split by revenues)



Working capital levels have increased over the past five years, but there is still a positive YoY trend

€2.3bn rise in working capital since FY14

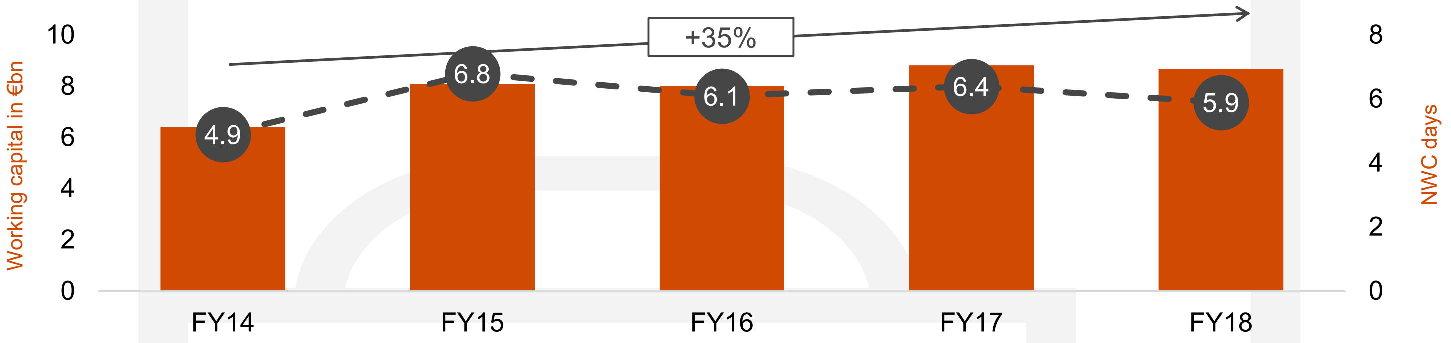
Working capital performance has deteriorated since FY14, also there was a recovery in FY18.

Over the past five years, an additional €2.3bn has been tied up due to worsening working capital performance. This resulted in an overall increase of 1 days working capital. Key contributors over the period have been an increase of DSO by 1 day and of DIO by 1.6 as well as 1.6 days, while DPO also rose by 1.3 days.

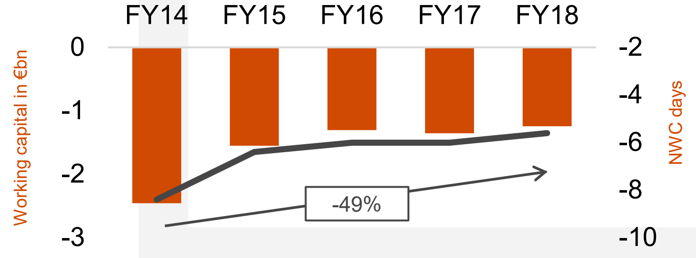
2018 saw a recovery in NWC performance, drive in particular by DIO enhancements.

However, there is still room for further improvement for the leading 50 retailers when compared to the best performers in each subsector and their historic best performances.

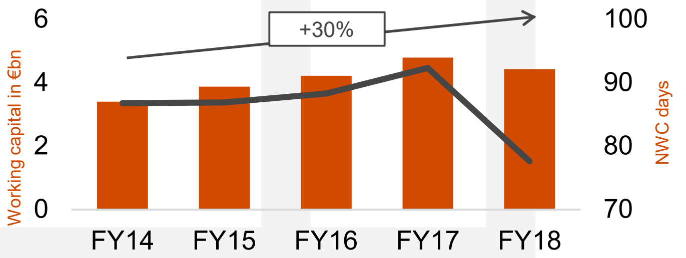
YoY Working Capital trend in the DACH retail sector



Food and hypermarkets
8% YoY increase in working capital, with sales growth of 3%



Sportswear
7% YoY decrease in working capital, with sales growth of 5%

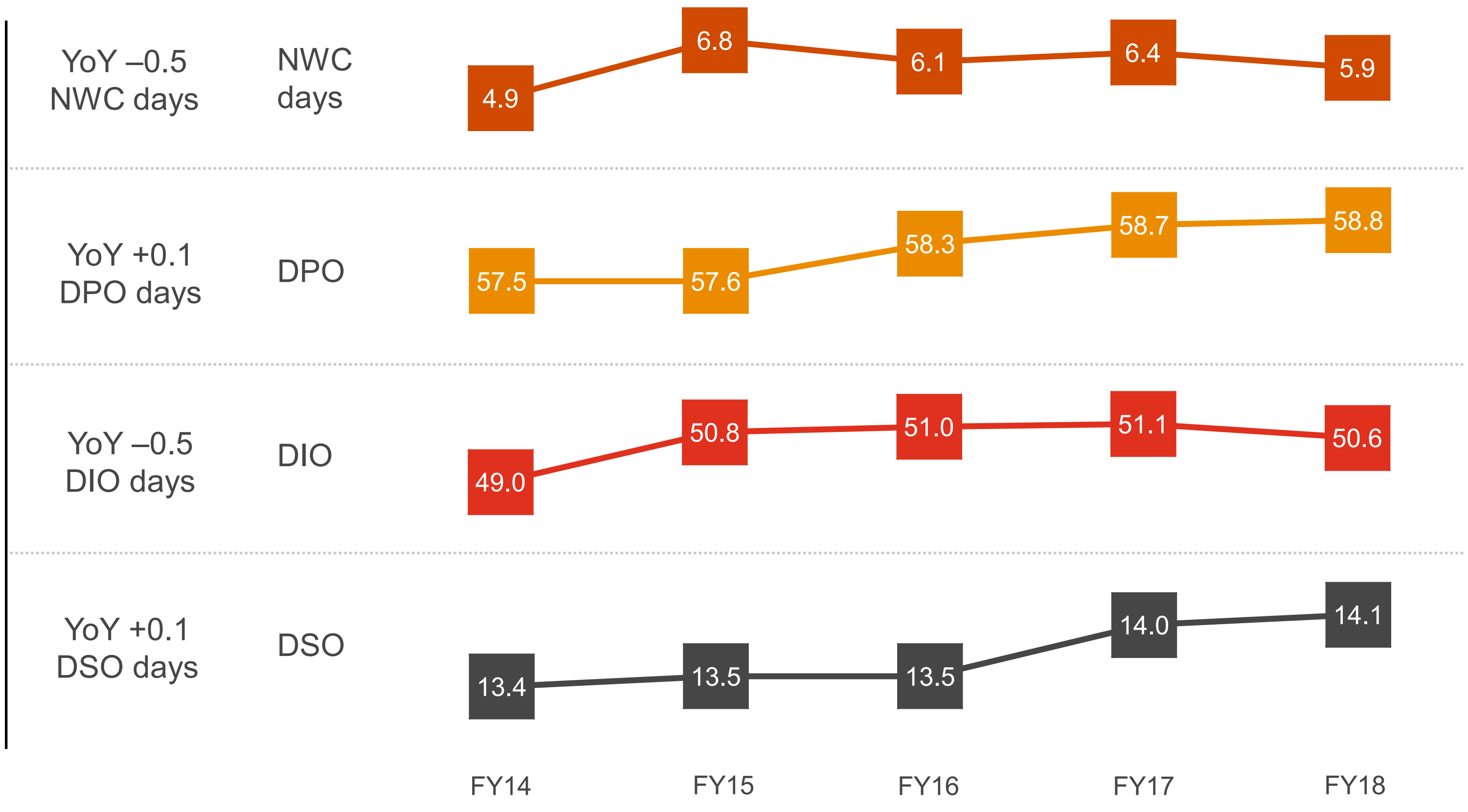


DPO and DIO performance show positive YoY trends, while DSO has decreased slightly over the last 12 months

NWC performance has deteriorated over the last 5 years.

This NWC trend is driven by the development of DIO and DSO. Nevertheless, a positive trend from 2017 to 2018 is visible in DIO and DPO performance, while the DSO trend shows no improvement compared to the previous year.

22 of the 50 leading retailers have increased their NWC ratio since 2017. More than 45% of NWC deterioration comes from the food and hypermarket sector, which still has a negative working capital ratio.

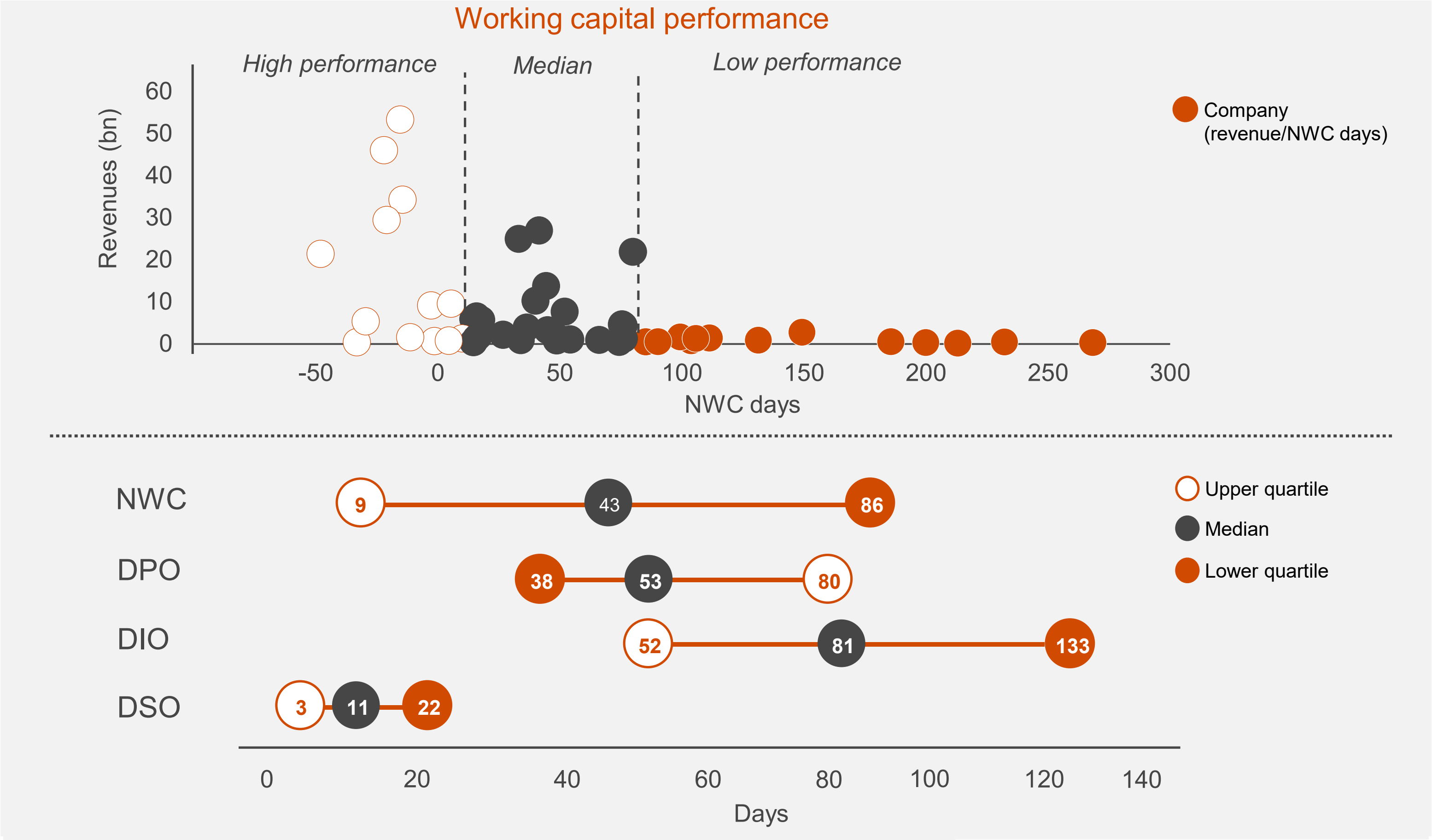


The DACH retail sector has a wide NWC performance variance

The working capital performance range shows high variances across the retail sector, with an overall median of 43 days working capital.

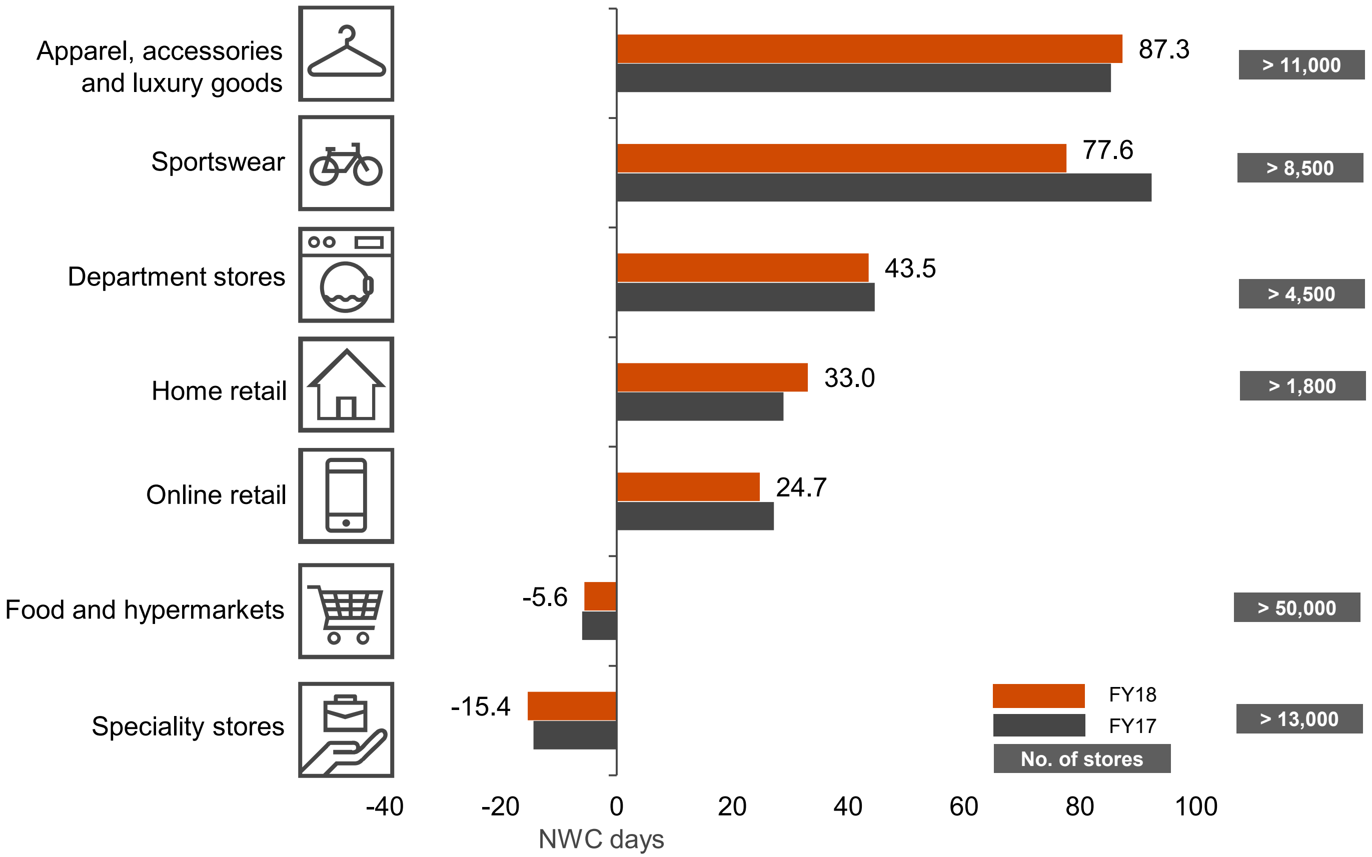
The sector's business model is mainly B2C, which typically creates low days receivables (DSO) and higher days inventory (DIO). These are the main drivers of the overall working capital performance.

The majority of the retail companies could release a significant amount of cash by raising their working capital performance to the next performance quartile. Inventories in particular could deliver a high cash potential by enhancements in ordering and warehouse processes.



Retail sector working capital performance shows negative YoY development in four out of seven subsectors

Average net days working capital by retail subsectors



Speciality stores

NWC and revenue improved, reaching -15.4 NWC days and €48.7bn revenues (FY18).

Revenue increased by 3% compared to 2017.

NWC decreased by 1 day compared to FY17 due to DPO enhancements and partially offset by worsening DSO and DIO as sector pushes the online sales channel.

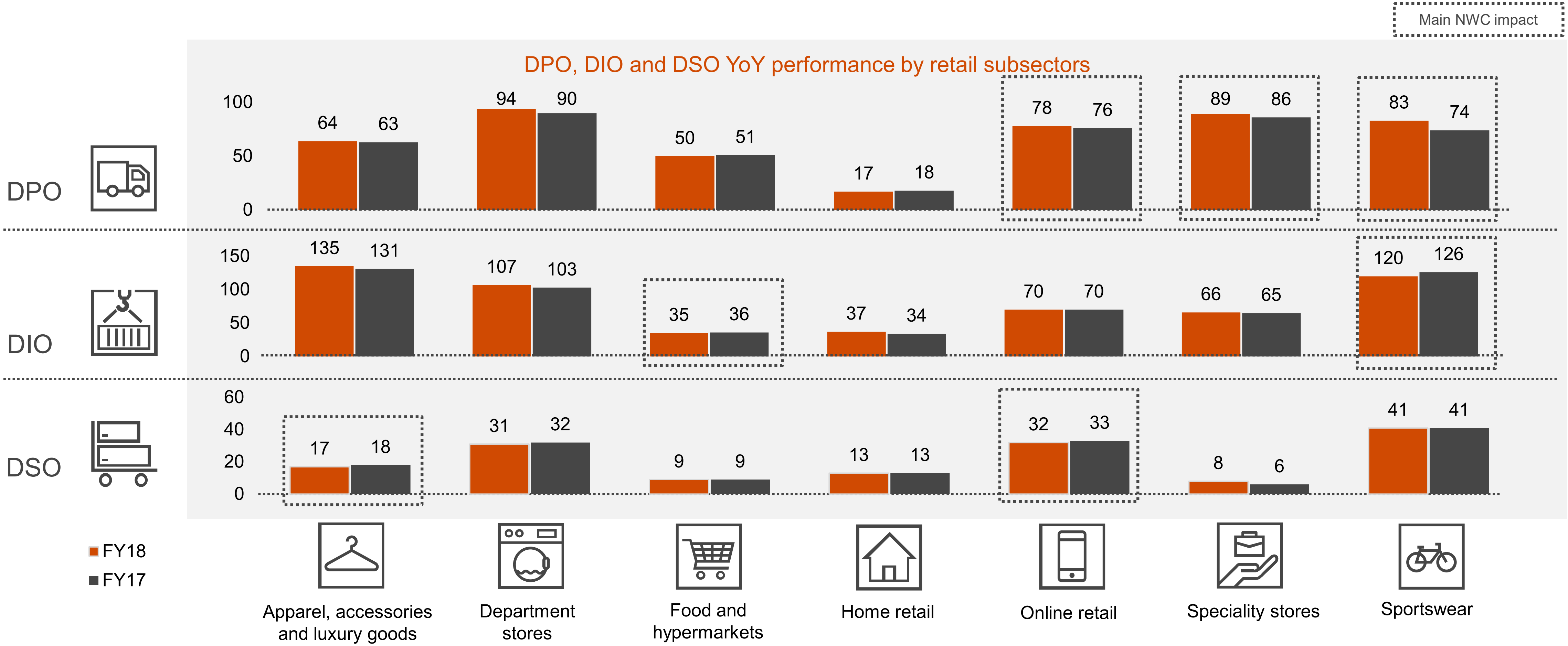
Apparel, accessories and luxury goods

NWC deteriorated to 87.3 NWC days, while revenue increased to €18.5bn (FY18).

Revenue increased by 3% compared to FY17.

NWC increased by 2 days compared to FY17 due to less effective inventory management.

The positive overall YoY NWC trend is driven by specific subsector performance improvements



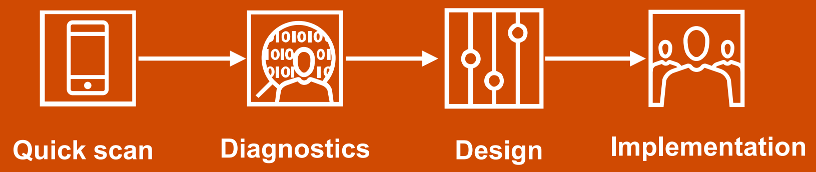
The retail sector is going through a phase of transformation driven by changes in technology, consumers and business

Retail companies are facing specific NWC challenges and need to manage them properly:

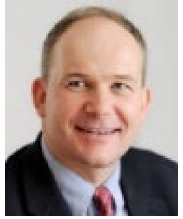
	Supplier	Warehouse	Customer
• Changing customer behaviour demanding greater variety and immediate availability of products	✓	✓	
• Increased retail business flowing through e-commerce providers	✓	✓	✓
• Extended DSO due to a high proportion of purchases being made on account			✓
• High expectations and importance of product returns		✓	✓
• Global sourcing vs. near-sourcing	✓	✓	
• Seasonality and stock availability challenges together with a demanding customer base		✓	

We can help you to:

- Identify and realise cash benefits across the end-to-end value chain
- Optimise operational processes that underpin the working capital cycle
- Increase transparency and cash performance through data analytics and digital working capital solutions
- Enable rapid cash conservation to support transformation
- Provide insights and support with trade finance solutions



DACH retail working capital Retail contacts and key authors



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Methodology

This study provides an overview of the 50 leading German, Austrian and Swiss retail companies following the Capital IQ sectorisation. All calculations are based on publicly available data. The division of subsectors is based on Capital IQ Primary Industry classification (data available for 100% of sample).

Basis of calculations

Metric	Definition	Basis of calculation
NWC % (net working capital %)	NWC % measures working capital requirements relative to the size of the company.	(Accounts receivable + inventories – accounts payable) ÷ sales
NWC days (net working capital days)	Indication of the total days to complete the full cash conversion cycle.	(Accounts receivable + inventories – accounts payable) ÷ sales x 365
DSO (days sales outstanding)	DSO is a measure of the average number of days that a company takes to collect cash after the sale of goods.	Accounts receivable ÷ sales x 365
DIO (days inventories outstanding)	DIO gives an idea of how long it takes for a company to convert its inventory into sales.	Inventories ÷ cost of goods sold x 365
DPO (days payables outstanding)	DPO is an indicator of how long a company takes to pay its trade creditors.	Accounts payable ÷ cost of goods sold x 365

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