

2017

# Working Capital Management Insights

*from*

*Norwegian Private Equity and Venture  
Capital Professionals*

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# Introduction

**W**orking capital management is important as a key driver for **value creation** in the private equity and venture capital space. It is a way to **release cash** out of non-profitable assets from their portfolio companies to repay debt, expand through investment, or conduct acquisitions without incurring further indebtedness. These firms are more likely than other businesses to **focus on improving** the working capital management practices at their portfolio companies.

**T**o find out how these firms manage the working capital of their portfolio companies we conducted a survey amongst **152** Norwegian private equity and venture capital professionals. We wanted to **gain insights** into their working capital management perceptions, practices and challenges. With this survey, we hope **to inspire** companies **to learn** from the practices and experience of private equity and venture capital professionals.

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# Key Findings

## Private Equity and Venture Capital professionals:

**01**

Highly prioritize working capital management and most of them have plans to improve the working capital of their portfolio companies in the next 12 months.

**02**

Mainly discuss working capital management on a monthly base and often benchmark the working capital performance of their portfolio companies.

**03**

Consider lack of system support and data quality as the most important reason for underperforming working capital management at their portfolio companies.

**04**

Often make use of external consultants to improve the working capital management of their portfolio companies.

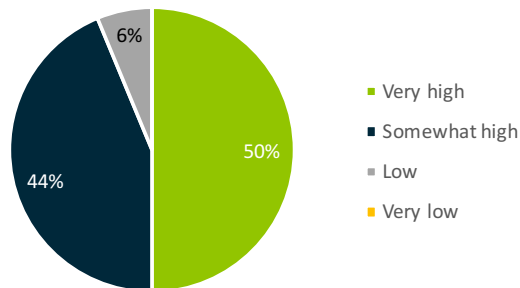
# Survey results

# 01 - The importance of working capital management

## Importance

Working capital management is an important topic for most private equity and venture capital professionals. In fact, more than half (52%) of the respondents considers the importance of working capital management very high compared to other areas, while 45% considers it somewhat high. A clear signal that working capital management is a top priority for private equity and venture capital professionals.

**How high on the agenda is the optimisation of working capital of your portfolio companies compared to other areas?**

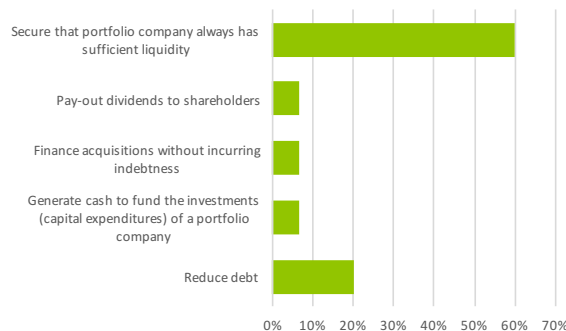


This high focus on working capital is not so strange as it is a key value creator for them. A reduction of working capital will improve cash flows and hence the value of their portfolio companies.

## Motivation

When asked what they see as the biggest motivational factor for focusing on working capital management, most respondents mentioned securing sufficient liquidity at their portfolio companies followed by reducing debt.

**What do you see as the biggest motivational factor for focusing on the working capital management of your portfolio companies?**



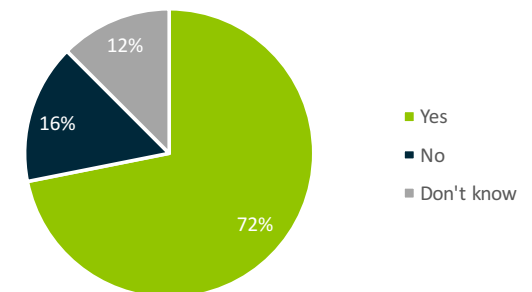
It is interesting to notice that only a few respondents mentioned “Pay-out dividends to shareholders” as the biggest motivational factor for focusing on working capital management. One would think that especially private equity firms want to get as much cash as possible

out of their portfolio companies to increase their return on investment.

## Planned improvements

Another signal that private equity and venture capital professionals highly prioritize working capital management is the fact that almost 75% of the respondents said that they have plans to improve the working capital management of their portfolio companies in the next 12 months.

**Do you have any plans or initiatives for improving the working capital of your portfolio companies in the coming 12 months?**

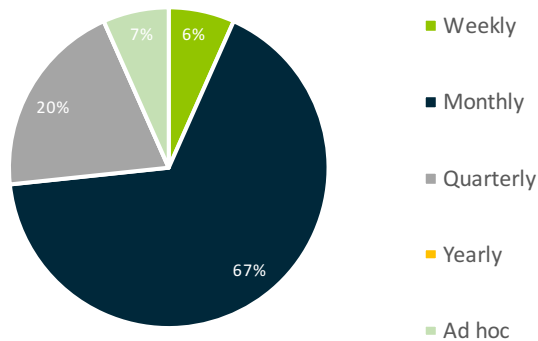


## 02 – Reporting and benchmarking

### Tracking performance

To improve working capital it is important to regularly discuss it. Only 6% of survey respondents discuss the working capital performance of their portfolio companies on a weekly basis. Most of them (67%) have discussions on a monthly basis.

**How often do you discuss working capital with the management teams of your portfolio companies?**



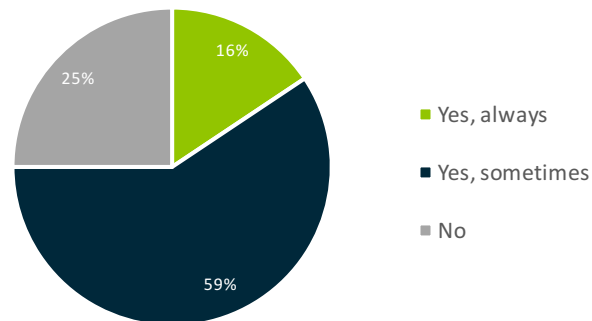
This suggests that monitoring working capital performance is aligned with general month-end practices. Interestingly, about 20% of the respondents discuss working capital on a quarterly basis. Our experience tells

us that discussions on a quarterly basis do often not create the necessary focus to achieve sustainable improvements.

### Benchmarking

Benchmarking is a powerful tool to assess the working capital performance of a company. Benchmarking can be done internally (comparing the performance of different portfolio companies with each other) as well as externally (comparing the performance of the portfolio companies with peers from the same industry).

**Do you benchmark the working capital performance of your portfolio companies?**



Three quarters of the respondents mentioned that they benchmark (either sometimes or always) the working capital performance of their portfolio companies.

# 03 – Which ratio's are being used?

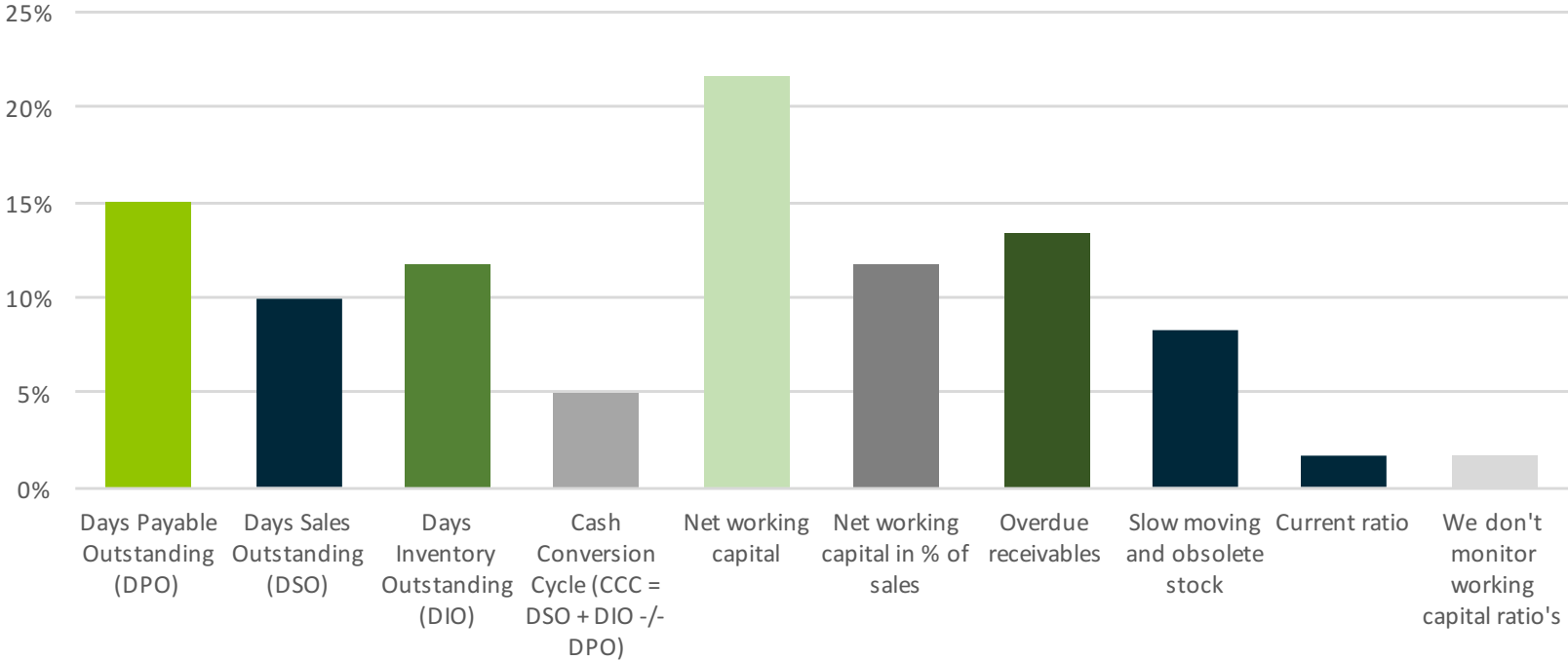
## Ratio's

Working capital ratio's are an important tool for monitoring the working capital development of a company. The most popular working capital ratio under Norwegian private equity and venture capital

professionals is Net Working Capital, followed by more traditional ratio's such as DPO, DIO and DSO. While Net Working Capital is an important measure, companies should be aware that this ratio fails to incorporate the impact of sales growth

on working capital. To monitor the overall development of working capital performance over time, it is therefore recommended to use Net working capital in % of sales.

Which of the following working capital KPIs related to your portfolio companies do you monitor?



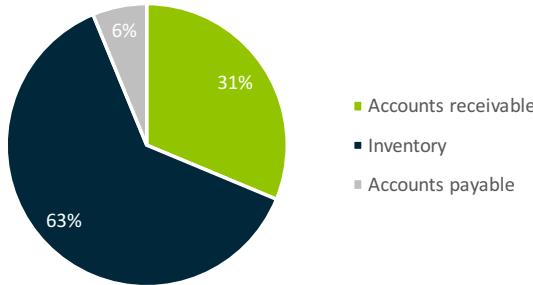


# 04 – Challenges in working capital management

## Difficult area's

Asked about which working capital area is the most difficult to manage, the majority of the respondents (63%) mentioned inventory, while one third of the respondents answered that they find accounts receivable the most difficult area to improve.

Which working capital area do you consider in general the most difficult to optimize?



Inventory management is a balancing act between carrying sufficient amounts to meet customer service level targets while not have excess inventory that consumes cash and carries greater risk for obsolescence. In practice, many companies struggle with optimizing their inventory level.

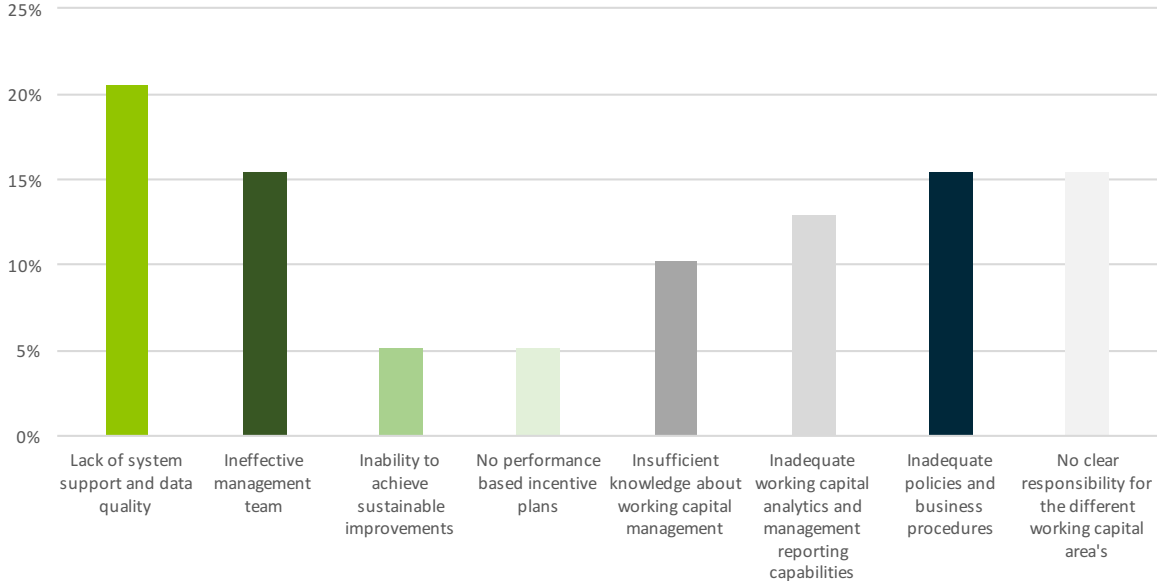
It is furthermore interesting to see that only a few private equity and venture capital professionals (6%) consider accounts payable as a difficult area to optimize.

## Reasons for underperforming

When asked what they think as the most important reasons for underperforming working capital management at their

portfolio companies, most respondents mentioned a lack of system support and data quality. Other important reasons are an ineffective management team, inadequate policies and procedures and inadequate working capital analytics and management reporting capabilities.

What do you see as the most important reasons for underperforming working capital management at portfolio companies?

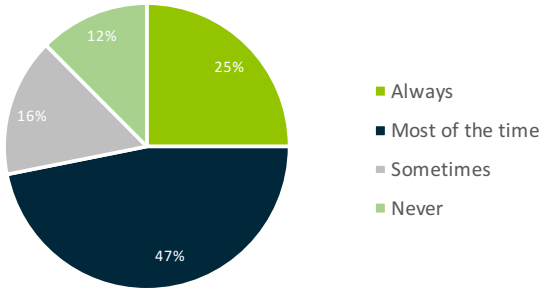


# 05 – The use of external support

## Use of external consultants

A quarter of the respondents answered that they always use external consultants in order to improve the working capital management of their portfolio companies, while almost 50% use consultants most of the time.

### How often do you utilize external consultants for improving the working capital management of your portfolio companies?



Only 12% of the respondents mentioned that they never use external consultants.

The frequent use of external consultants is not surprising as many private equity and venture capital firms do not have

the internal resources or the expertise to carry out an intensive working capital program themselves. The use of external consultants is then an effective and efficient way to improve the working capital management of their portfolio companies.

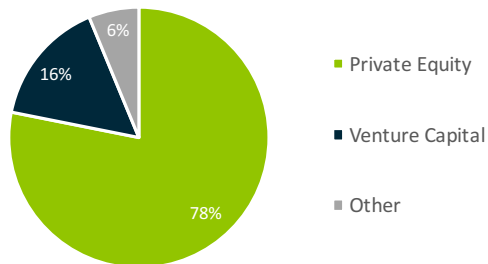
The costs associated with using external consultants is almost always only a small fraction of the cash generated from an improved working capital management.

# Appendices

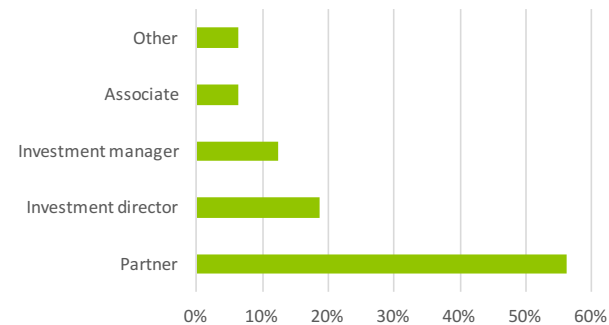
# Survey demographics

This survey is compiled from the answers of 32 respondents (response rate of 21%) representing 14 different Private Equity / Venture Capital companies in Norway

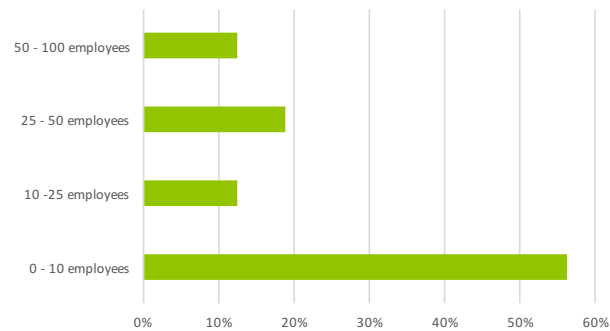
Distribution of respondents by company type



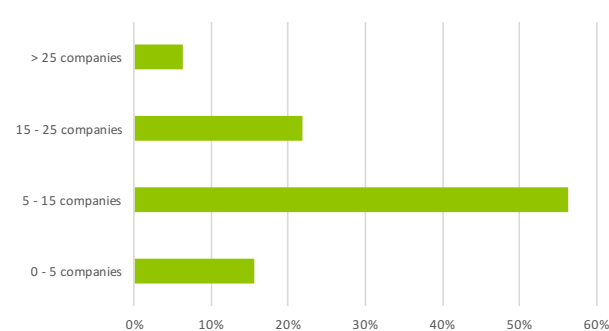
Distribution of respondents by job position



Distribution of respondents by company size (number of employees)



Distribution of respondents by company size (number of portfolio companies)



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# How can Norsk Arbeidskapital support you?

*Norsk Arbeidskapital is a consulting firm specialized in working capital management offering support to a wide range of companies. We support companies with our expertise in order to optimize their working capital by:*

**1** Performing a diagnostic review to identify 'quick wins' and longer-term working capital improvement opportunities

**2** Developing detailed action plans for implementation to generate cash and make sustainable improvements

**3** Supporting the implementation of action plans and monitor the realization of improvements

## *What we deliver:*

**10-20%**

*A typical identified cash opportunity between 10-20% of gross working capital*

**6-12 months**

*50% of identified opportunity often delivered in the first 6 - 12 months*

**EUR**

*An organisational cash culture across sales, operations and finance*

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*To discuss working capital support  
with us, please get in touch*

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