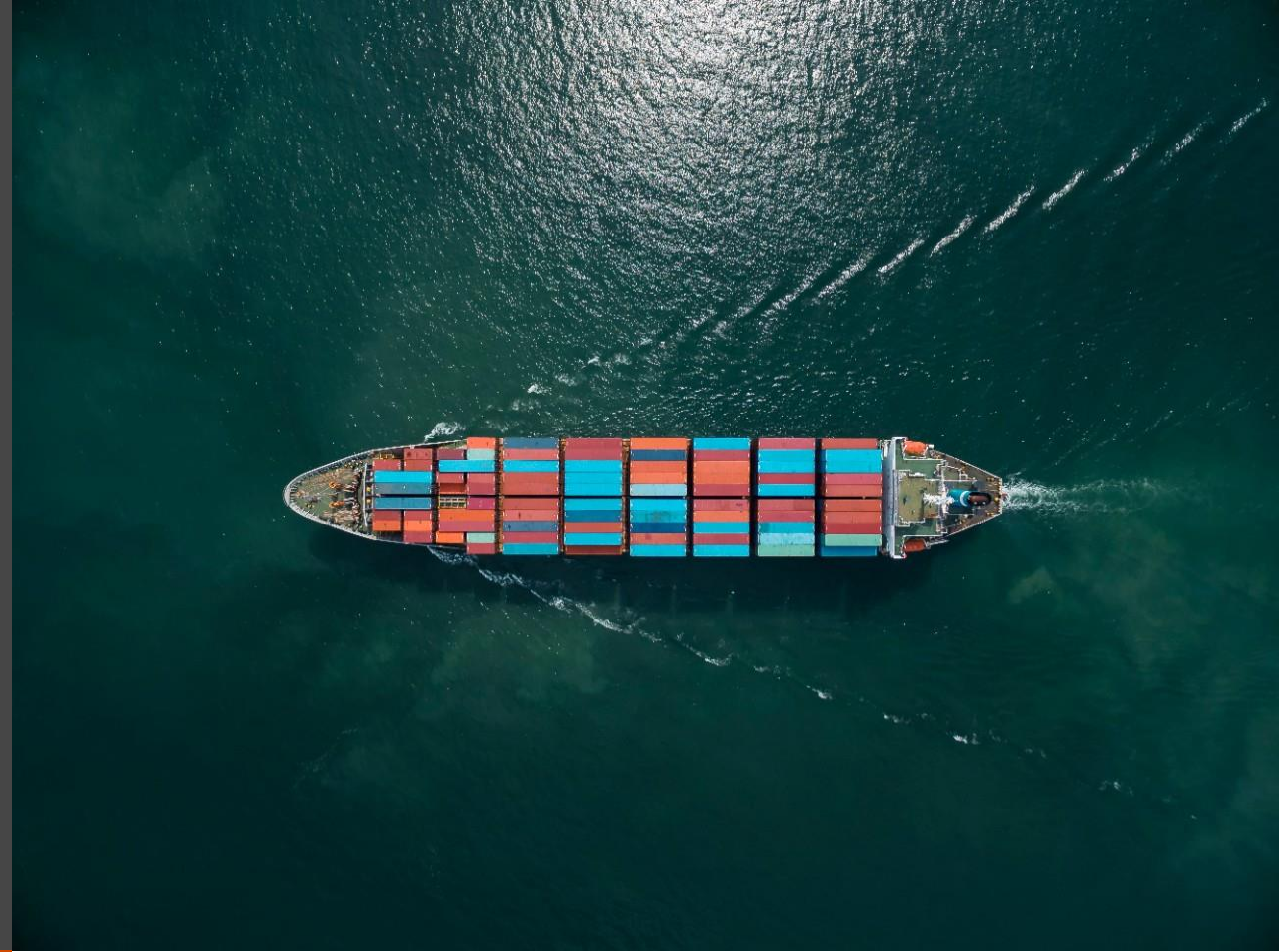


# Working capital in 2025

Update from a Finnish M&A perspective

November 2024



# 1

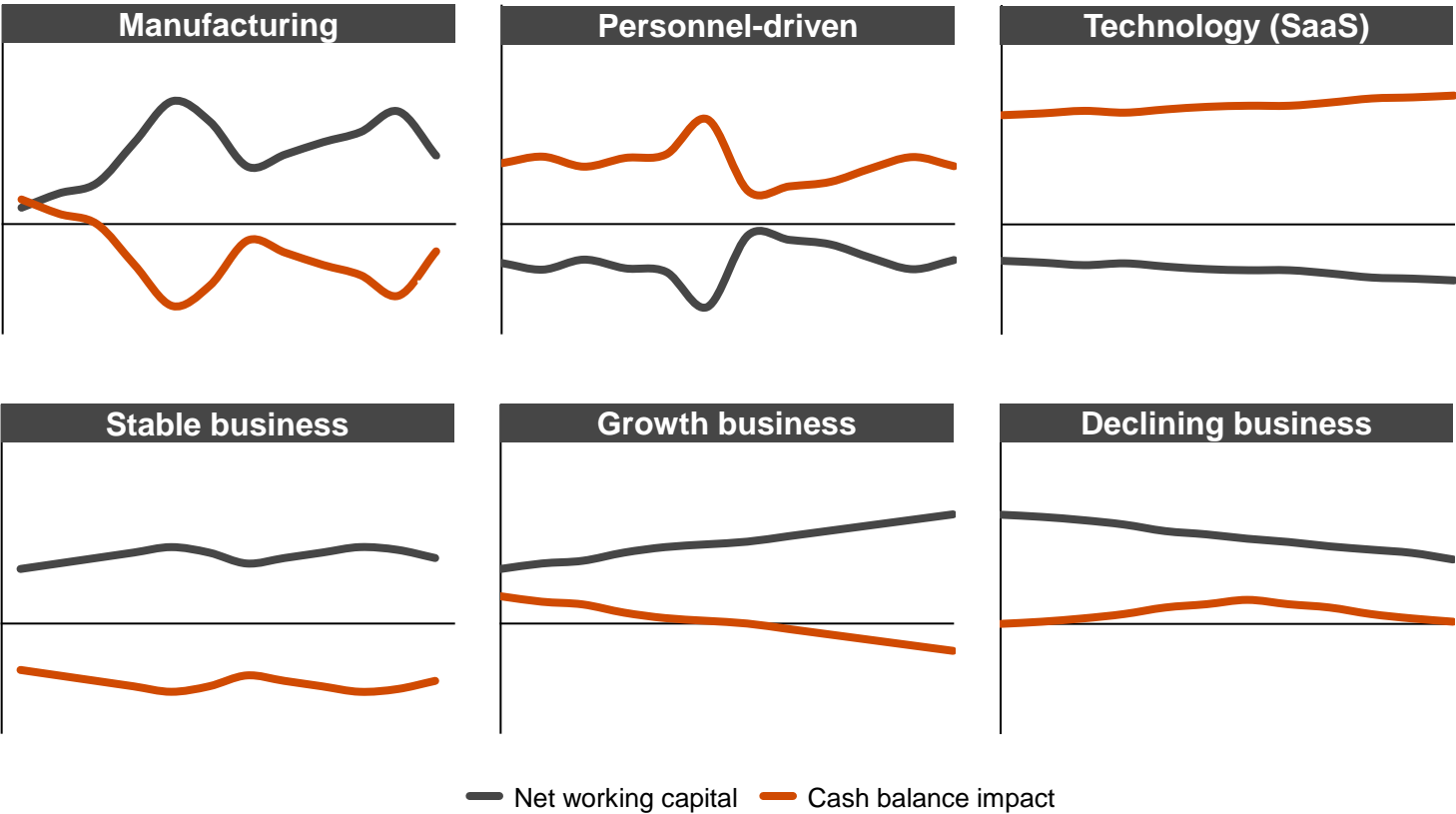
## Working capital in M&A

Introduction and current considerations  
for dealmakers

Working capital consists of the operating accounts of a business. It reflects the amount of funding required to generate EBITDA.



Illustrative working capital profiles during a calendar year



The working capital needs of a business are affected by...

- |                        |                        |
|------------------------|------------------------|
| Industry dynamics      | Terms of trade         |
| Growth trajectory      | Seasonality            |
| Operational efficiency | Regulatory environment |
| Geographical footprint | Macroeconomic factors  |

Working capital affects operating cash flow and therefore value.



**More efficient working capital management leads to...**



Higher operating cash flows resulting in **higher valuations**



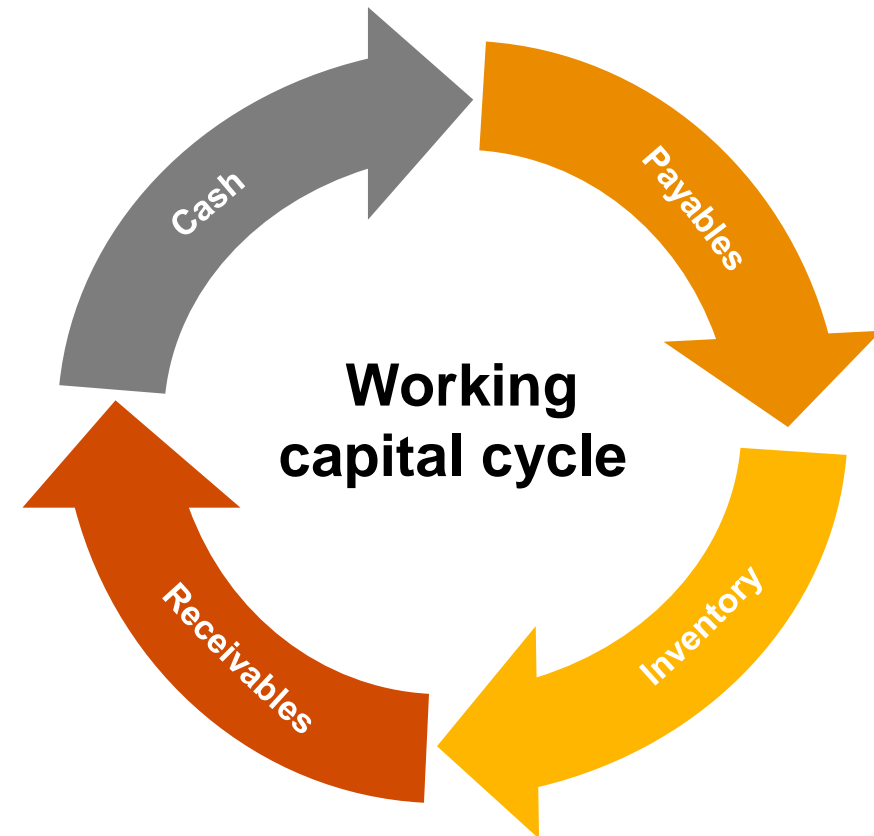
**More cash available** for e.g. investment and remuneration



**Better** visibility and foundation for **cash flow forecasting**



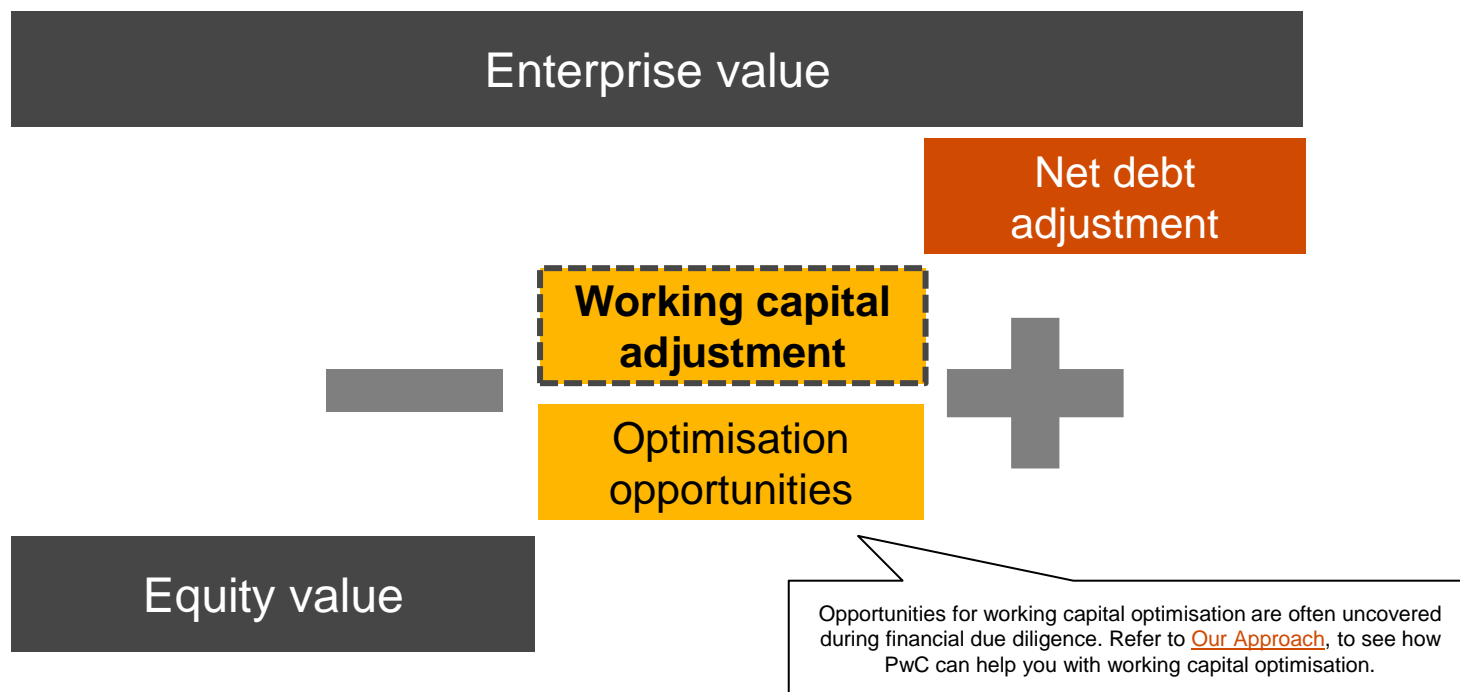
**Increased credibility** of projected financial information



The pricing mechanism in practically all M&A transactions contains a working capital adjustment component.



## Typical purchase price components



## Working capital adjustment

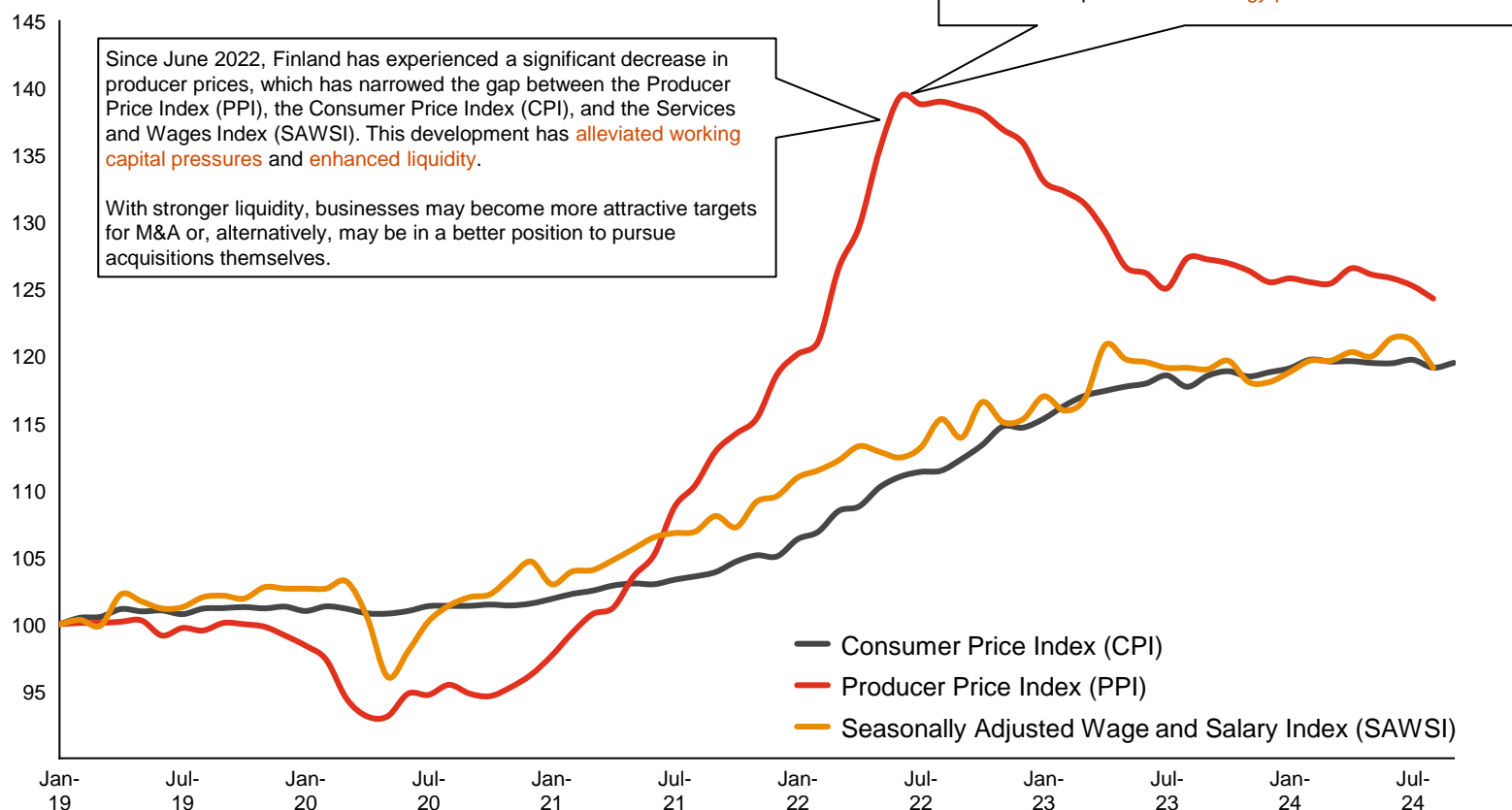
- Defined in the SPA\*:**  
Working capital at closing compared against the normal level of working capital required in the business.
- Appropriate metric:**  
The seller and the buyer may have different interests when it comes to how broadly vs narrowly working capital is defined.
- Outcome of negotiation:**  
Insights obtained from rigorous due diligence tend to result in additional bargaining power supported by fact-based arguments.

\*Sales and Purchase agreement

# Working capital considerations for transactions.



## Finland – Inflation indicators from Jan-19 to Sep-24



## Questions for dealmakers in 2025

- Have key production prices changed recently? *If so, perhaps the typical LTM target approach should be challenged and working capital rebased to a new higher or lower level depending on the direction of change.*
- How has inventory accounting caught up with changes in production prices?  
*A change in production price often initially results in a holding gain or loss on inventory before a product is sold. This has an EBITDA impact, which only becomes visible when the product is sold. Careful diligence on inventory turnover is required to identify whether this is a risk or an opportunity for a particular M&A target company.*
- Can we leverage the upcoming EU payment regulation to our advantage? *How will e.g. the planned new late payment directive and mandatory E-invoicing in B2B transactions impact the target business.*
- How to assess working capital in a carve-out situation?  
*Benchmarking assumptions based on terms of trade, FTEs, square meters as well as e.g. on holiday pay and VAT cycles are often required. However, these assumptions should also take into account what type of price changes are impacting the business being carved-out.*

# 2

## Working capital trends in Finland\*

\*For a global perspective on recent developments in working capital, refer to the PwC UK [Working Capital Study 24/25](#).

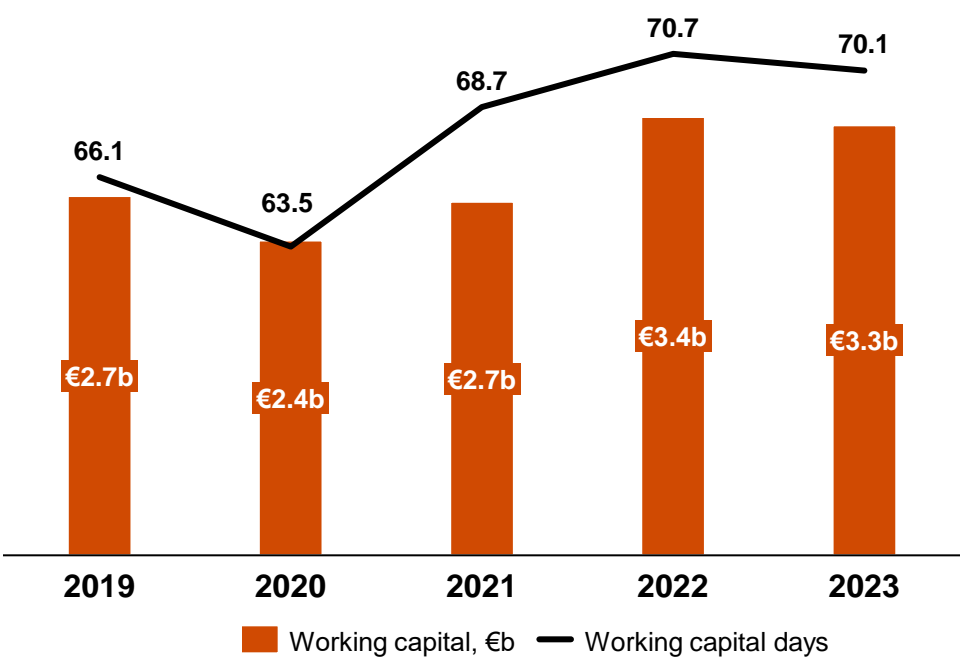


# Working capital levels in Finland stabilised overall in 2023 after having increased in 2021-2022 following COVID-19 and the War in Ukraine.



## Finland – Working capital and working capital days\*

\*Working capital days illustrate how many days on average it takes companies to convert working capital into revenue.



Source: PwC's analysis, based on public data extracted from Capital IQ, is used as the source for all the data presented in this section. The sample contains the 97 largest Finnish publicly listed companies for which data are available. Note that the financial and insurance sectors are excluded. Also, note that the KPIs have not been adjusted for VAT and potential accruals.

## Working capital trends in Finland

As businesses continue to navigate the evolving economic landscape, we observe notable fluctuations in working capital metrics from 2019 to 2023. Specifically, Days Sales Outstanding (DSO) and Days Payables Outstanding have shown some stabilization, while Days Inventory Outstanding (DIO) remains elevated.

Year-over-year changes in DSO, DPO and DIO have been substantial, driven by several factors including:

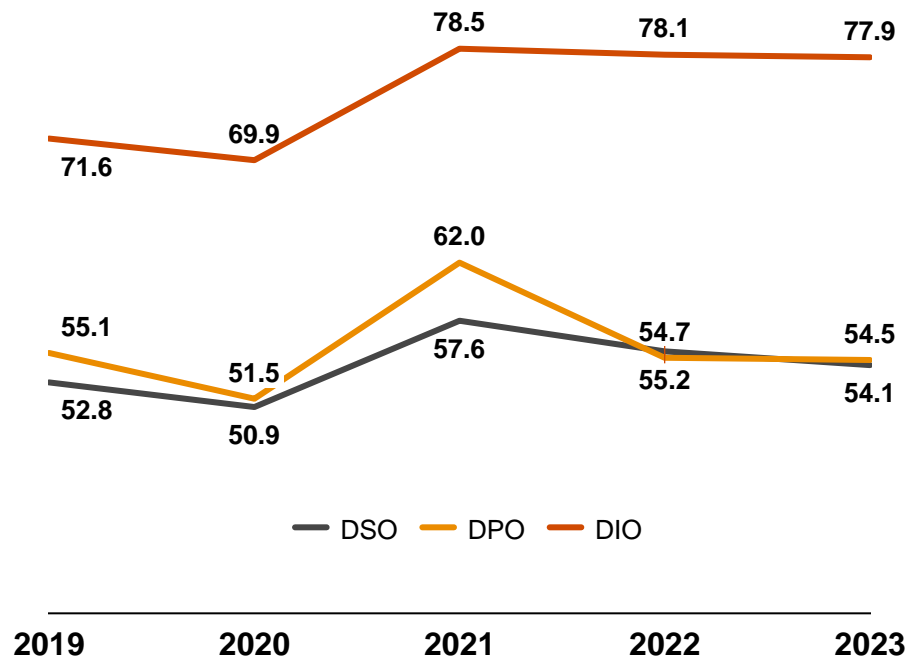
- 1. Geopolitical and environmental disruptions:** Recent trends indicate that disruptions caused by geopolitical and environmental events, such as those in Ukraine, the Red Sea, and the drought in the Panama Canal, have become increasingly critical topics for businesses. These new challenges have pushed supply chain resilience to the forefront. In response, companies are increasingly looking into the regionalization of their supply chains. Additionally, companies are shifting away from single-source dependencies, particularly from China, and further diversifying risks by sourcing within closer regional boundaries. As a result, companies have negotiated new terms with suppliers, which has led to changes in DPO. Furthermore, to counter these disruptions some businesses have increased they inventory-levels, subsequently leading to higher DIO.
- 2. Changing consumer behaviour:** Economic uncertainty has influenced consumer spending habits, making demand prediction more challenging. Despite recent optimism with reductions in inflation and interest rates, noticeable uncertainty among customers persists. In supply chains, the three critical parameters are cost, service level, and working capital. To combat demand unpredictability and ensure quicker delivery to customers, businesses are increasingly prioritizing higher service levels. This shift often entails increasing inventory levels, resulting in a higher DIO.



Sales and payables days peaked in 2021, while inventory days have remained elevated.



### Finland – DSO, DPO and DIO days



Note: The observed decrease in DPO (Days Payable Outstanding) from 60-70 days in [the previous report](#) to 50-60 days in this report is primarily due to the exclusion of unlisted companies in the current sample. Certain unlisted energy companies, which typically had higher DPOs, were present in the previous sample but are not included in this year's analysis.

### Working capital trends in Finland

As businesses continue to navigate the evolving economic landscape, we observe notable fluctuations in working capital metrics from 2019 to 2023. Specifically, Days Sales Outstanding (DSO) and Days Payables Outstanding have shown some stabilization, while Days Inventory Outstanding (DIO) remains elevated.

Year-over-year changes in DSO, DPO and DIO have been substantial, driven by several factors including:

- Impact of EU regulations on payment terms:** As mentioned in our previous release in March 2024, this remains a relevant topic. The introduction of EU regulations aimed at limiting the influence of large corporation in setting payment terms, is expected to lead to reduction in DPO and DSO as payment cycles become more standardized.
- Sustainability considerations:** There is a growing emphasis on sustainability in supply chains, which may influence inventory management and supplier selection. Companies committed to sustainable practices may face different inventory turnover rates as they adapt to new sourcing criteria.

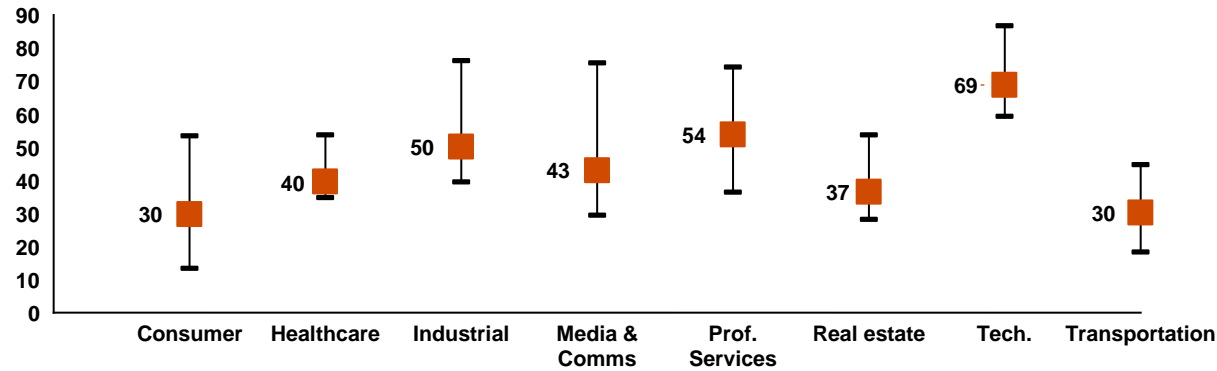
**Future outlook:** DSO and DPO are expected to remain stable or decrease slightly due to EU regulation and supply chain adjustments. DIO, however, is likely to stay elevated as businesses continue to prioritize higher inventory levels to mitigate supply chain disruptions, manage demand unpredictability, and align with sustainability goals. This trend will be further supported by the need for regional sourcing and increased service levels.

Working capital has converted to revenue fastest in the transportation, healthcare and professional services sectors, slowest in the real estate and technology sectors.

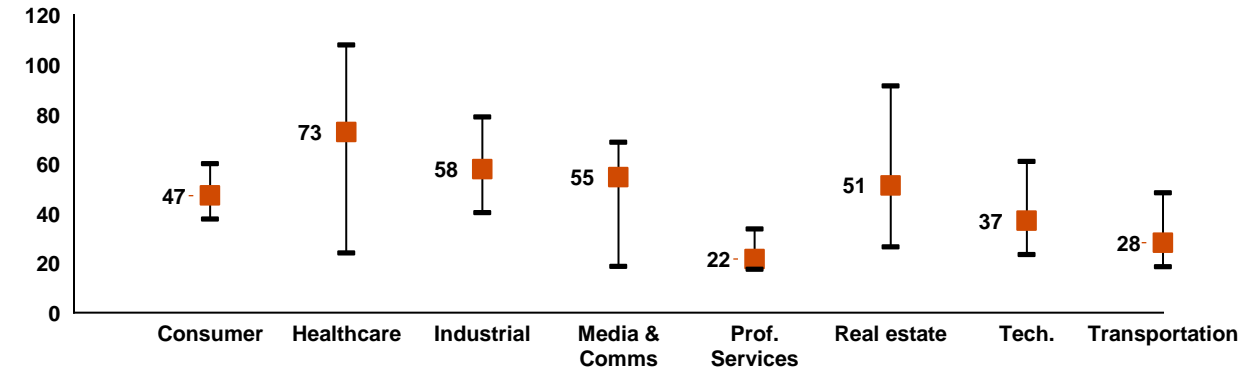


Finland – DSO, DPO, DIO, and NWC days quartile spread and median by sector 2019-2023

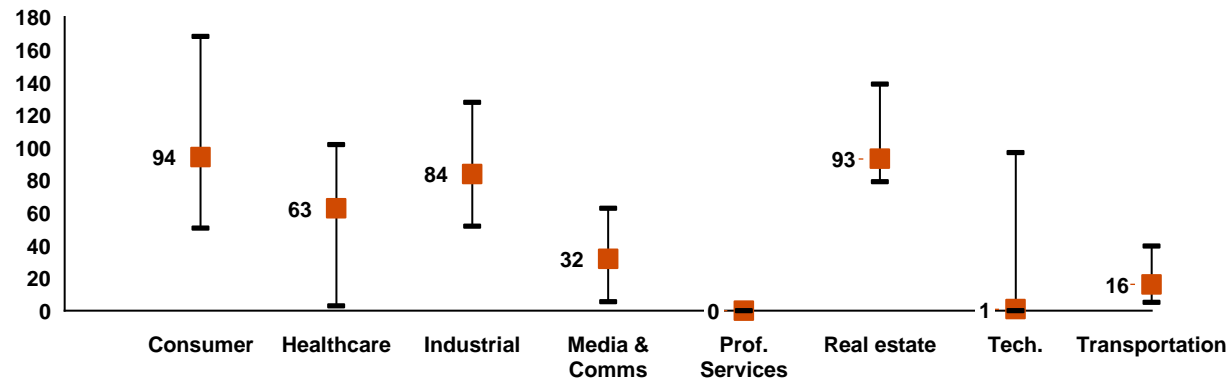
### DSO



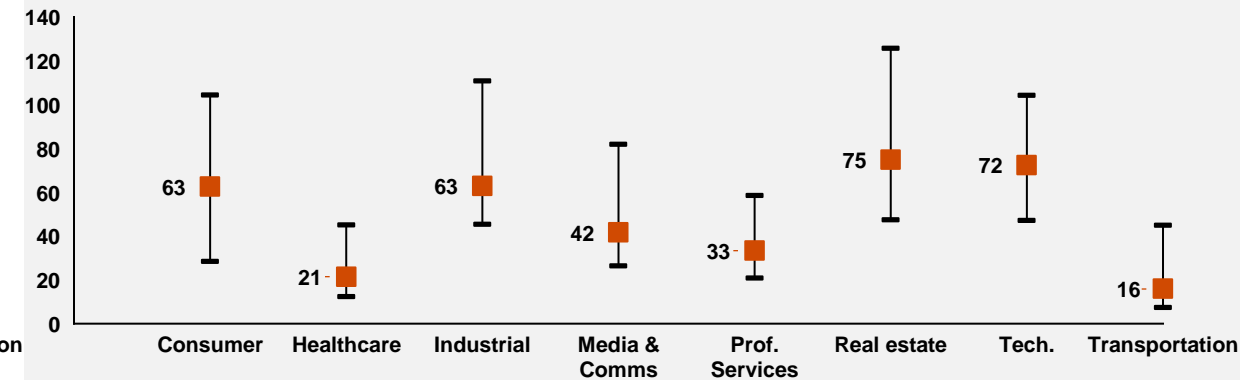
### DPO



### DIO



### NWC Days



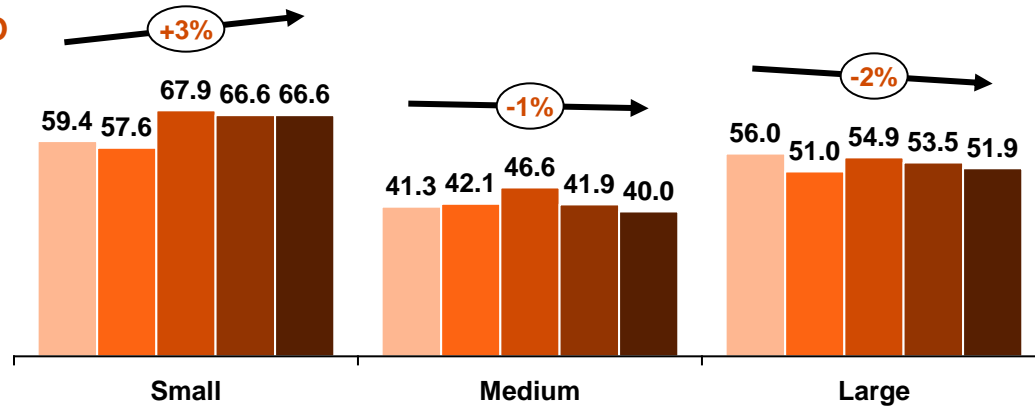
Legend: ■ Median I Interquartile range

Working capital development has been more adverse for smaller companies compared to medium size and large companies. This has been driven by increase in collection days (DSO) from 2021 onwards.

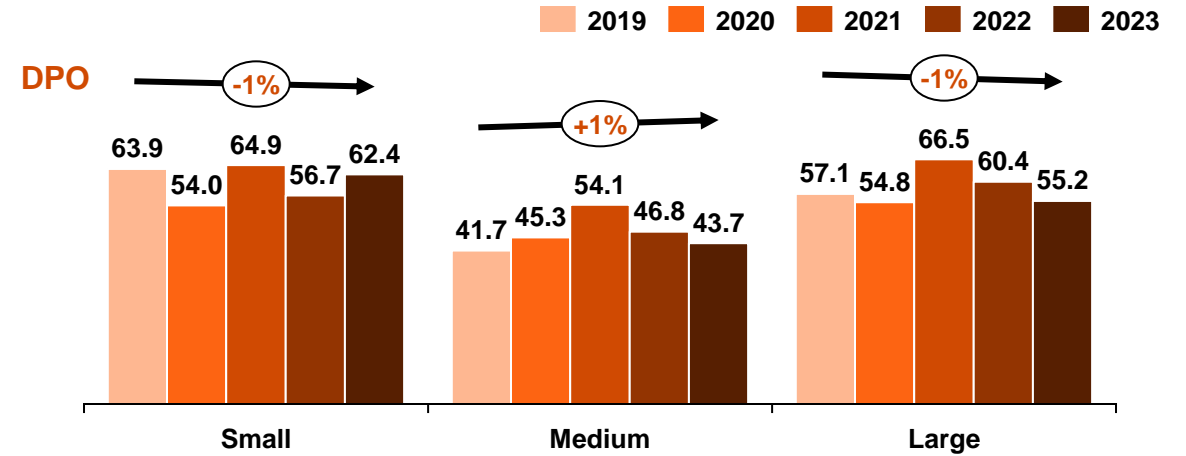


## Finland – Average by company size

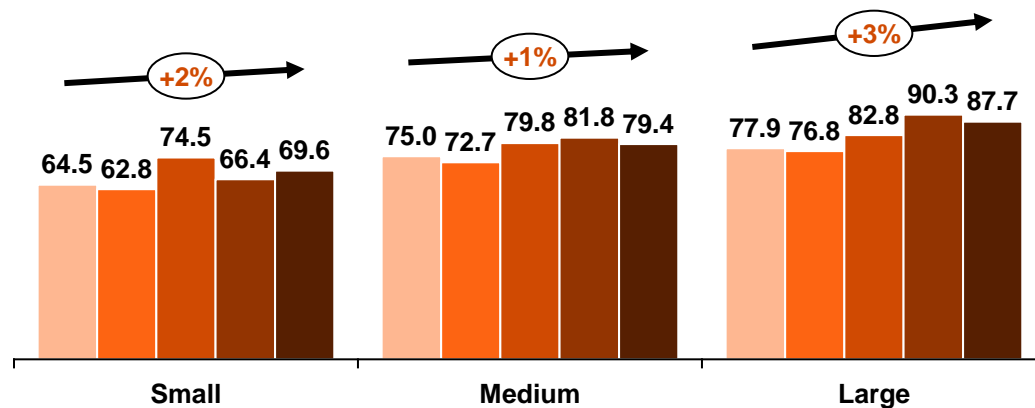
### DSO



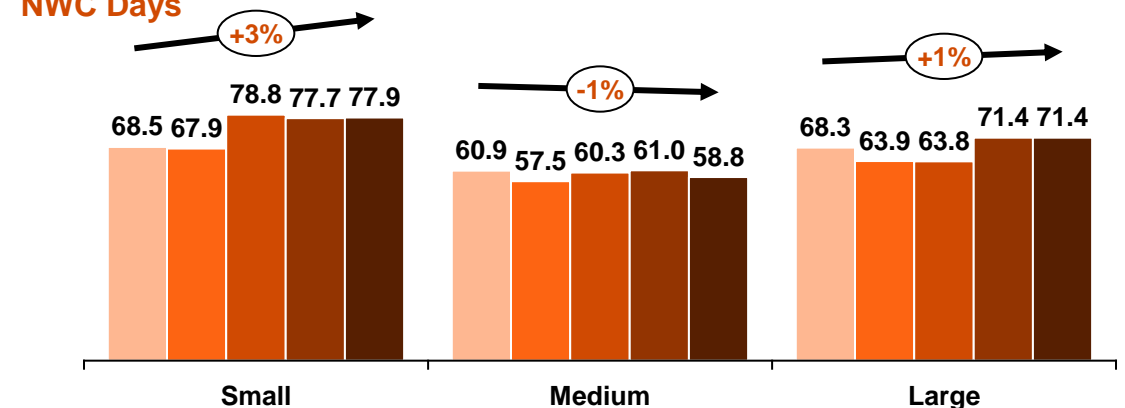
### DPO



### DIO



### NWC Days



Note: "Small companies" annual revenue between €50m and €200m; "medium" between €200m and €1b; and large +€1b. If you are interested in reading about global working capital trends, have a look at the PwC [Working Capital Study 24/25](#). Trend percentages reflect compound annual growth rates (CAGR) over 2019-2023.

# 3

Our approach

We put business diligence at the heart of our M&A and working capital advisory.



Our approach

Benefits

Comprehensive analyses

- Rigorous **Quality of Earnings** analysis
- Actionable **EV to Equity** bridge
- Unbiased opinion of upsides and vulnerabilities in the **business plan**



Real-time insights from an interactive dashboard



Robust control over purchase pricing factors

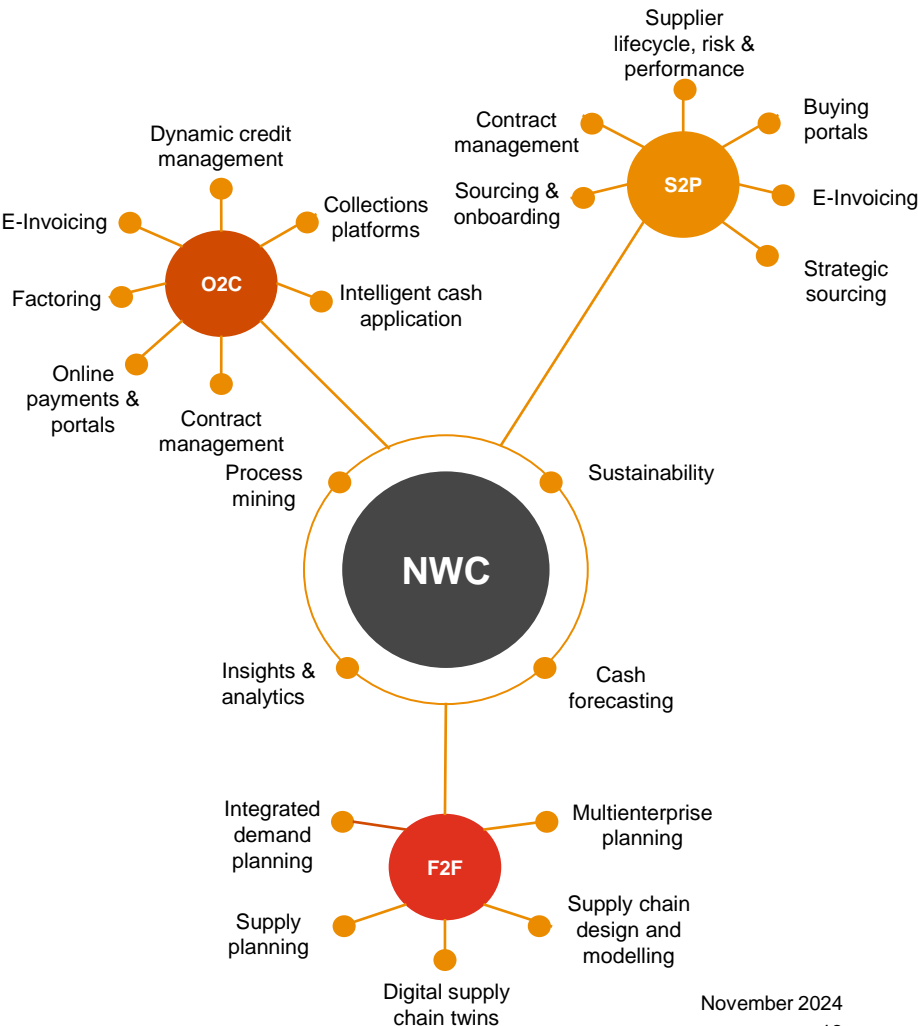
- |                                       |                        |
|---------------------------------------|------------------------|
| Closing schedules linked to valuation | Accounting definitions |
| Choice of mechanism                   | W&I insurance          |

Solid basis for a credible business case

Increased confidence among funding providers

Unparalleled visibility before and after transaction

Improved outcomes in SPA negotiations

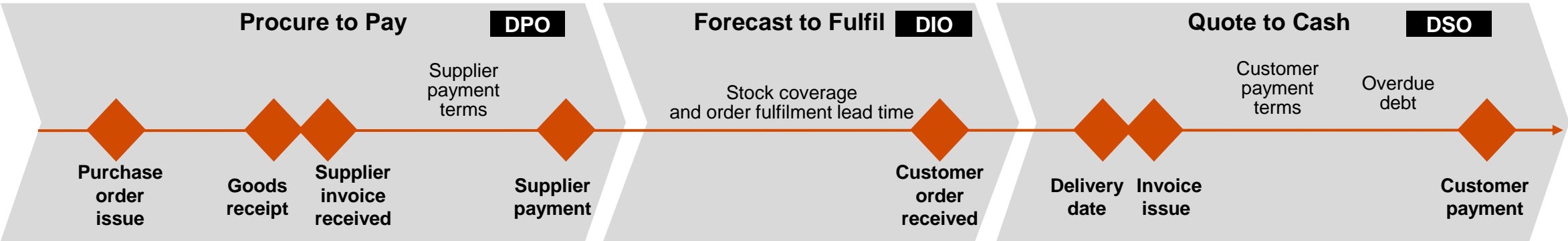




After having acquired a business, there is usually room for value increase through working capital optimisation.



Working capital process



**Warning Signs**

- Low DPO
- Early/late payments
- Numerous 'exceptional' payments made
- Retrospective Purchase Orders
- Large spread of payment terms
- Lack of visibility of spend

- High DIO/low stock turn
- Over 5% of inventory over 90 days old
- Over 40% of inventory 30-90 days old
- Annual inventory write off > 5% of COGS
- Poor stock visibility and demand forecast

- Overdue receivables > 10%-15% of total AR
- High DSO
- Unbilled receivables >1 day (without reason)
- Disputes not flagged and categorised in system
- Level of write-off > 0.5% of sales
- Large spread of payment terms

**Cash culture:** Not incentivised on cash, no cash dashboard, lack of cash focus in performance management and reporting



PwC is broadly recognised as the global leader in operations consulting, having strong capabilities also in working capital.



PwC has global reach with local presence

professionals **370,000+**  
countries **149**



Assurance



Tax



Advisory



M&A



Strategy



Operations



Finance



Tech



ESG

We are well recognized across all areas within operations



Differentiated supply chains



Operations excellence



Strategic supply management



Innovation excellence



Competitive manufacturing



Service operations

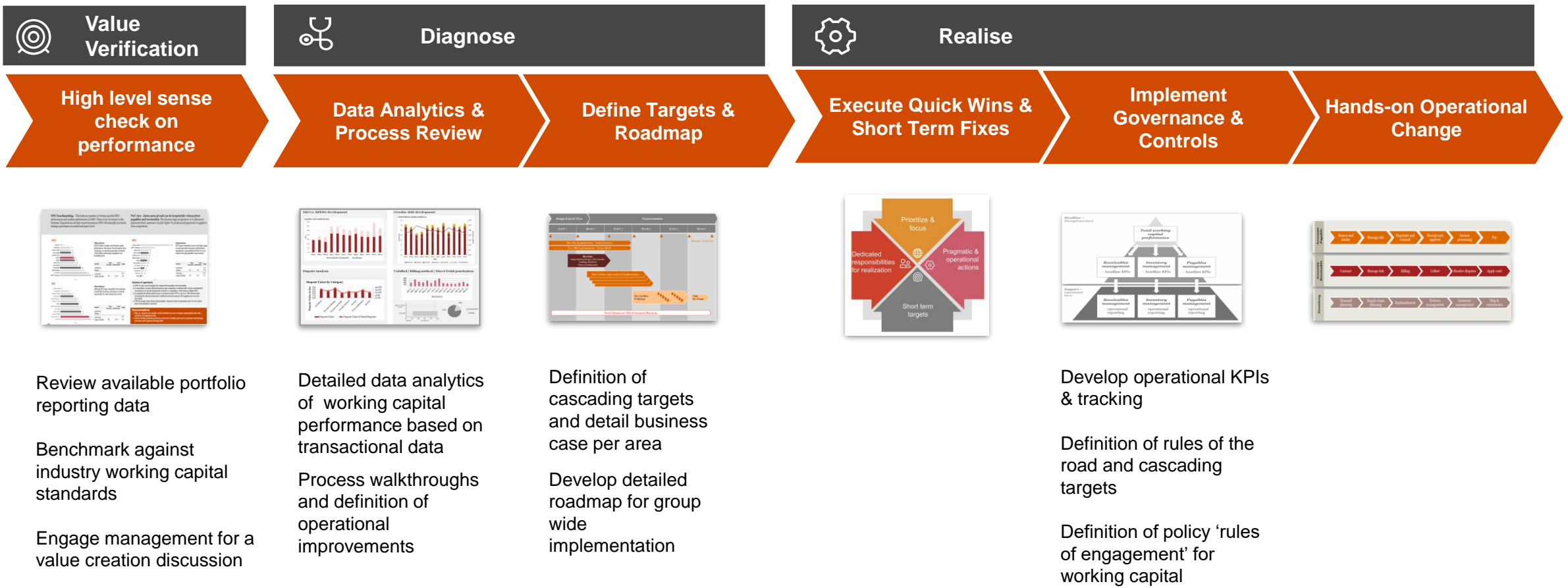
We work closely with our global technology alliances



PwC is a thought leader in working capital



We have supported our customers in all phases of NWC transformation.



Our approach has been noted by the market - we are involved in most major transactions taking place in Finland.



Combination of **Neles** with **Valmet**

July 2021

€4.3b  
(target)

Combination of **Altia** with **Arcus**

September 2020

€640m  
(combined)

Combination of **Outotec** with **Metso**

August 2019

€4.2b  
(combined)

**Hedin Mobility Group's** acquisition of **Laakkonen Automotive** business

May 2022

€615m  
(target)

A consortium's acquisition and Public to private of **Ahlström Munksjö**

September 2020

€2.9b  
(combined)

**Hologic's** acquisition of **Mobidiag**

April 2021

€600m  
(deal value)

**Kalmar** demerger and listing

July 2024

€2.0b  
(target)

Sale of significant minority stake in **Granlund** to **ICG**

June 2024

€139m  
(target)

Acquisition of **Purmo Group** by VAC  
(1st SPAC in Finland)

September 2021

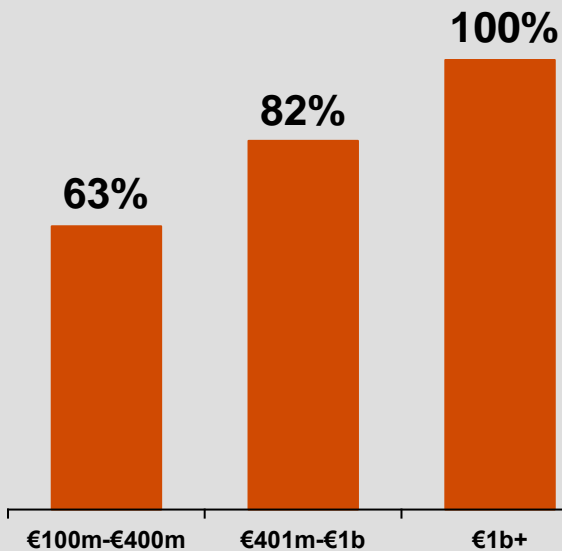
€671m  
(target)

**Haveli Investments** and **Bregal**  
**Milestones** investment in **M-Files**

August 2024

€119m  
(target)

**Talouselämä announced majority deals in Finland, PwC involvement**  
(January 2020 – September 2024)



Note: Statistics based on Finnish deals announced in Talouselämä magazine's Deals section excluding minority deals between Jan-20 to Sep-24. Deal size in the statistics and in the individual deals is based on the Target's (company, asset or combination based on transaction structure) latest available 12-month turnover prior to the transaction. Deal volume: €100m-400m n=43, deals €401m-€1b n=11 and deals +€1b n=6, in total n=60. Source: Talouselämä Magazine, PwC analysis.

# Supporting you in your transactions.



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# Thank you

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