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Working capital in project business

The hidden impact of operational inefficiencies on cash flow and capital costs

Executive summary

Project-based businesses face unique challenges when it comes to working capital management. Unlike traditional operations, these companies operate with long lead times, milestone-based payments, and contract-specific terms that often result in significant amounts of capital being tied up in projects. This paper elaborates on the importance of considering capital efficiency in projects and address the inefficiencies negatively impacting financial performance.

This white paper will explore and address often overlooked aspect of working capital and cash flow planning

With practical examples and elaborations on the regularly overlooked financial costs of operational inefficiencies, we highlight why these aspects are critical to consider when managing projects in your organization. The paper provides guidance on how to identify improvement opportunities and act on them. It emphasizes the financial impact of poor working capital management, including hidden capital costs, and encourages companies to treat working capital as a strategic lever.

This paper aims to enhance your understanding and offer practical insights into improving working capital and cash flow in project-based organizations. Despite the insights being most valuable to the project-based context, there are still lots of insights applicable to companies' operations regardless of operative structure. By building financial resilience and unlocking cash tied up in working capital, you can reinvest that cash into improving operations and driving long-term growth.

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Introduction

Addressing the challenges and overlooked consequences of inefficiencies and neglect of capital costs during cash flow planning offers a chance to enhance both your profitability and financial flexibility. This is especially important amid today's business uncertainty.

In today's volatile business environment—characterized by fluctuating interest rates, rising input costs, tariffs, and ongoing supply chain disruptions—effectively managing capital tied up in operations has become a strategic priority. This is especially true for companies that work with complex deliveries of goods or services over extended periods, typically managed within a project delivery structure. These organizations—such as engineering firms, defense contractors, energy developers, and infrastructure builders—face heightened exposure to external risks and internal complexity.

For these project-driven businesses, the ability to manage capital-intensive projects efficiently is no longer optional; it's central to strategic execution. Unlike standardized "off-the-shelf" sales, projects introduce greater uncertainty and risk due to their bespoke nature. However, companies that proactively manage capital efficiency within their projects can not only improve operational execution but also significantly reduce their overall capital costs.

While much attention has been on the Profit & Loss (P&L) metrics, and isolated working capital components in the balance sheet, project-related financial metrics must be viewed in conjunction since they are interconnected in timing. Despite this, these perspectives are often both less explored and utilized in project performance assessments.

Ultimately, the core of capital efficiency in projects lies in managing cash *in* and cash *out,* both at the individual project level and across the entire project portfolio. This is fundamentally a question of timing: scheduling of milestones, invoices, purchases, production, resource allocation, customer availability, etc. Yet, the timing within project structure is inherently less predictable and impacted by several internal and external factors, making it further challenging to manage. Mismanaging these challenges can quickly disrupt performance and consequently erode profitability with increasing costs.

> *Companies that work with complex deliveries of goods or services over extended periods, typically managed within a project delivery structure, require a greater focus on cash flow and capital planning*

This paper builds upon previous insights into capital efficiency, and the need for companies to manage their working capital to achieve capital efficiency. We will focus on the implications of operational and administrative inefficiencies' impact on working capital and how the relationship between operational excellence and financial performance are directly correlated.

To provide a comprehensive perspective, the paper is divided into four sections:

1) We will first define the conditions and provide examples of settings that we will explore to understand how these aspects impact everyday business

2) Next, the focus will be on the importance of managing cash flow throughout the project process and the direct relation between cash flow performance and capital costs

3) Followed by how operational and administrative inefficiencies deviate project performance and contribute with further negative financial impact than is immediately apparent

4) Finally, we will focus on what we can do to improve our performance and manage the inevitable challenges

By the end of this paper, we hope you will leave with insights on why managing operational efficiency is a highly relevant issue and what you can do to manage the challenges and achieve both financial and operational efficiencies simultaneously.

The balance sheet of project-based companies

Effective working capital management has long been a cornerstone in achieving capital efficiency, primarily with a focus on the classic components: Inventory, Accounts receivable (AR), and Accounts payable (AP). For a comprehensive overview on the market development of these aspects, we refer to our previous publication: *Capital efficiency outlook*.

These accounts are the foundation of *operating working capital* for "off-the-shelf" companies, where goods are sourced or produced, held as inventory, sold to customers, and payments are collected via invoice. In contrast, for project-based organizations, the primary focus of this white paper, operate under distinctly different conditions. Here, the landscape of working capital are broader and more complex, requiring a more sophisticated approach to managing both operational and financial challenges.

There are a few key differences in the financial process that we must establish to understand how to manage projects and the relationship between financial and operational performance. In project-based settings, additional financial accounts become relevant. While the accounts involved can vary, their defining feature is their association with long-term and milestone-driven projects. Typically, these accounts are aggregated under *Contract assets* and *Contract liabilities* in the balance sheet. They represent the financial state of ongoing projects, reflecting the total accumulated assets or liabilities tied to project progress.

Figure 1: Differentiating Classic Working Capital Management and Project-Based Organizations

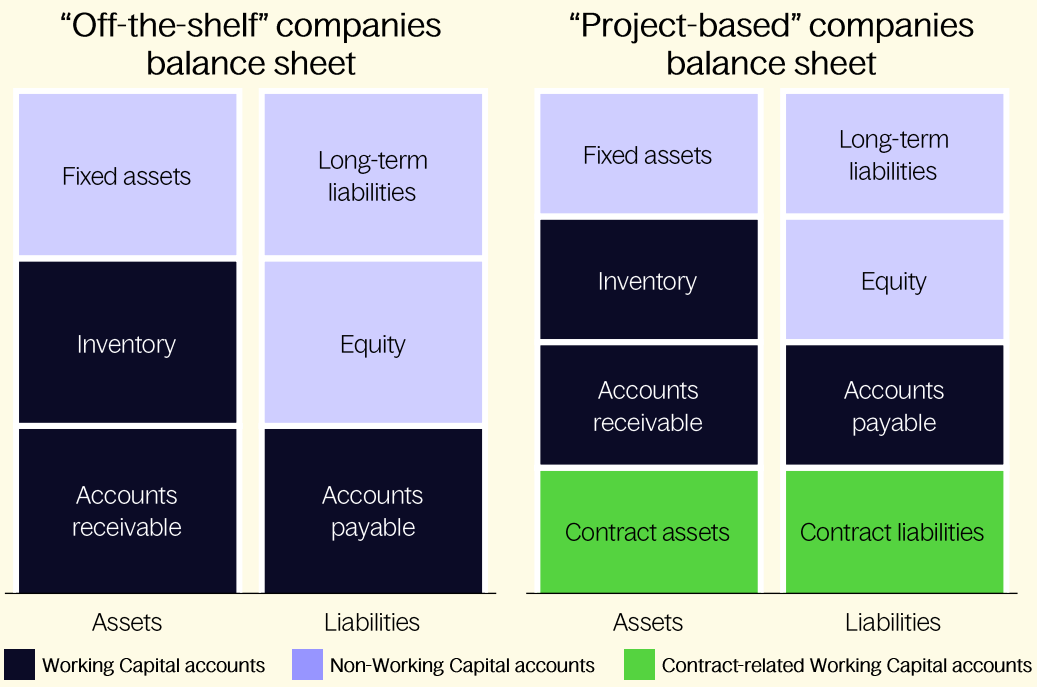


Illustration highlights the difference of the balance sheet composition between different types of companies. "Project-based" companies typically include contract-related accounts

Unlike for “off-the-shelf” companies, the relationships between financial accounts in project settings are often more dynamic and interdependent. For instance, Accounts receivable might be tied to milestone-based invoicing rather than at product delivery, while Accounts payable can be dependent on deliveries tied to a specific project phase. Inventory plays a slightly lesser role in the project setting but is often replaced by other accounts to represent partially completed work. These “in between” accounts reflect progress made, rather than the more definitive accounts. The logical reasoning is that the projects are executed over time, where work is continuously in progress.

Some of the more common project-related accounts are:

Accrued revenues: Represent the value of work performance or goods delivered that has not yet been invoiced to the customer. It is recognized as an asset because the company has earned revenue but has not yet issued the invoice

Customer prepayments: A liability representing the value of an obligation to deliver, where the customer pays for a milestone or delivery in advance that is to be delivered at a later stage

Prepaid expenses: Payments made in advance for goods or services that will be used in the future. They are recorded as an asset until the full benefits are received

Milestone payments: A liability when the payment received from the customer exceeds the value of work completed at that point in time. The value represent the excess amount that we are obliged to perform

The distinct operating conditions of project-based organizations also affect the P&L, particularly in how revenue and costs are recognized. Briefly summarized, revenue is recorded based on the value of work performed, rather than the value of what has been delivered. As a result, work may be recognized as revenue event before the customer has been invoiced. This has implications for operational and financial performance and requires additional focus when designing and interpreting performance metrics.

While the balance sheet and P&L outline the performance at a point in time or accumulated over time, cash flow is what is particularly relevant for project-based companies. It captures the actual movement of funds throughout a project's lifecycle and directly influences financing requirements. At project completion, the net cash flow: cash in minus cash out, represents the realized results. As such, cash flow is directly related to the financing needs and, by extension, the financing costs.

Given these dynamics, cash flow should be the primary lens through which project performance is assessed. This perspective will guide the analysis throughout the remainder of this paper. While we acknowledge that both operational and financial conditions may vary, where the value of ongoing work may be considered as both assets and liabilities, the ultimate measure remains unchanged: cash is king.

Cash flow planning and impact of capital in project execution

Running a company requires capital to purchase goods, services and acquire necessary resources, whether it's personnel, intellectual properties, or manufacturing lines, to name a few examples. Managing capital is essentially the same as managing your cash flow and ensuring a proper balance between cash in and cash out.

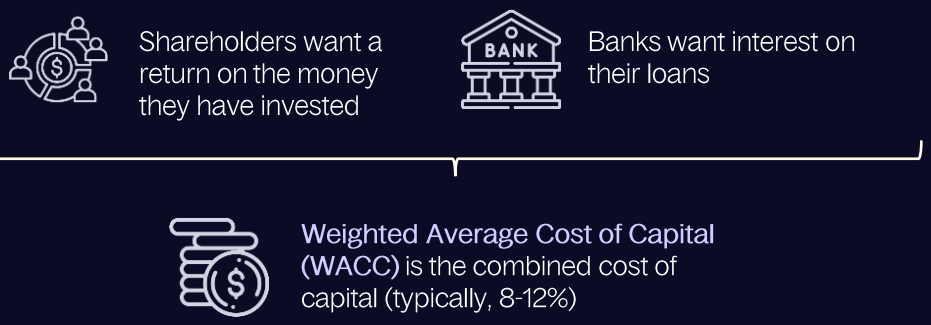
Effective cash flow planning is therefore essential to ensure financial health and operational efficiency, especially in project-based organizations. In this context, the relationship between working capital, operational performance, and cash flow requires a disciplined and well-designed approach to secure a profitable business. This section explores the importance of cash flow planning in project environments, its direct impact on operational performance, and how overlooking it can lead to higher-than-anticipated costs.

The impact of capital costs on project

Working capital management is a significant part of a company's cash flow performance. Balancing customer payments, inventory, and supplier terms with available capital to secure a sustainable cash flow. In a project context, these aspects become even more complex due to the various timing and long-term characteristics impacting project performance. Utilizing setups such as milestone- or pre-payments in the planning phase provides tools and methodology to structure and balance the project cash flow performance.

Before delving further into project execution, we need to highlight the often-overlooked aspect of capital costs. These are financial costs tied to the capital acquired to finance operations, such as loan interests, shareholders' expected return or dividends. Capital costs are directly related to the duration of required financing, as rates are based on the period of outstanding liabilities. This becomes particularly relevant in project performance, where time is one of the most critical factor.

Figure 2: Key components of WACC and their impact on capital costs



The combined expected return of interest, dividends, etc. is consistent regardless of company performance. Additional funding increase the amount expected returns from.

In milestone-driven projects, *cash flow gaps* may arise when the project isn't self-financed and required additional capital. This introduces capital costs, which directly affect the project's financial performance. The impact of capital costs is often overlooked during the initial scoping and forecasting but should be a fundamental part of financial planning. Another neglected aspect is the financial impact of additional capital costs due to delays or replanning. A project delay may incur penalty fees and can also cause increase capital costs by extending the duration of liabilities, further eroding the project's profitability.

The impact of capital costs is often overlooked in the initial scoping and forecasting of the project but should be a fundamental part of the financial planning.

Effective cash flow planning is the foundation of financial health in project-based organizations. Therefore, it's crucial to have robust processes that account for all factors. These processes should not only ensure accurate calculations but also be flexible enough to handle changes and deviations during project execution.

We will later summarize concrete actions to mitigate the risks and impact of capital costs in projects, but for now, we will focus on cash flow planning and cost forecasting. The process of cash flow planning and forecasting is common practice with established processes. However, the process can vary largely from organization to organization. From our experience, what appears similar on the surface is vastly different upon closer inspection.

Understanding the risks of overlooking capital costs in cash flow planning and follow-up

While it's clear that solid and adaptable processes are essential, we must also address why they matter. Project-based organizations with multi-period planning—spanning quarters or years—are significantly impacted by capital costs, which erode profits if cash flow planning and follow-ups are inadequate.

Figures 3 and 4 provide a simple yet clear example of the hidden impact of neglecting capital costs in long-term project cash flow planning. The graphs depict four key milestone payments, cash out from ongoing costs and supplier payments, and the net cash flow performance over time. Net cash flow determines the project's end profitability when considering all costs and revenue.

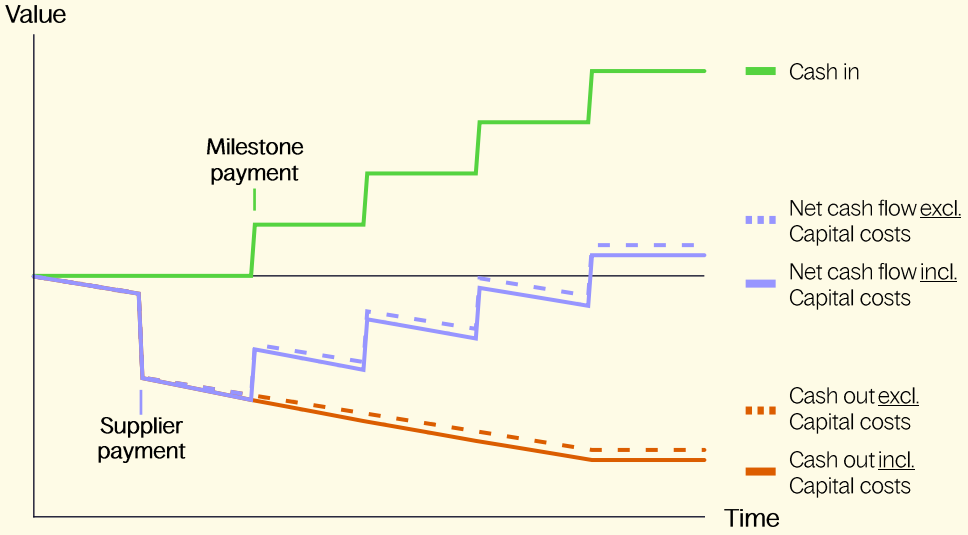
Two key aspects of financial planning are often overlooked:

1) Failing to include capital costs in initial cash flow planning
2) Not accounting for ongoing changes in capital costs

In figure 3, the graph shows the difference in costs and net cash flow impact when capital costs are either *included* or *excluded* based on additional financing needs. In this example, the project experiences negative cash flow for most of its timeline, therefore requiring additional capital to finance the project's operations.

Including capital costs in cash flow planning reveals the first commonly missed aspect, that actual project costs are higher when the cost of capital is factored in. For this two-year project example, calculated with a 12% WACC, **net profit drops from 15% to 10%**, reducing profitability by 33%.

Figure 3. Difference between including or excluding capital costs in cash flow calculations in projects



We have now established the importance of including capital costs in financial planning. The next step of financial planning is to ensure that the process remains dynamic and responsive over time. One of the most common mistakes is that cash flow monitoring fails to account for how project deviations or other changes affect capital costs.

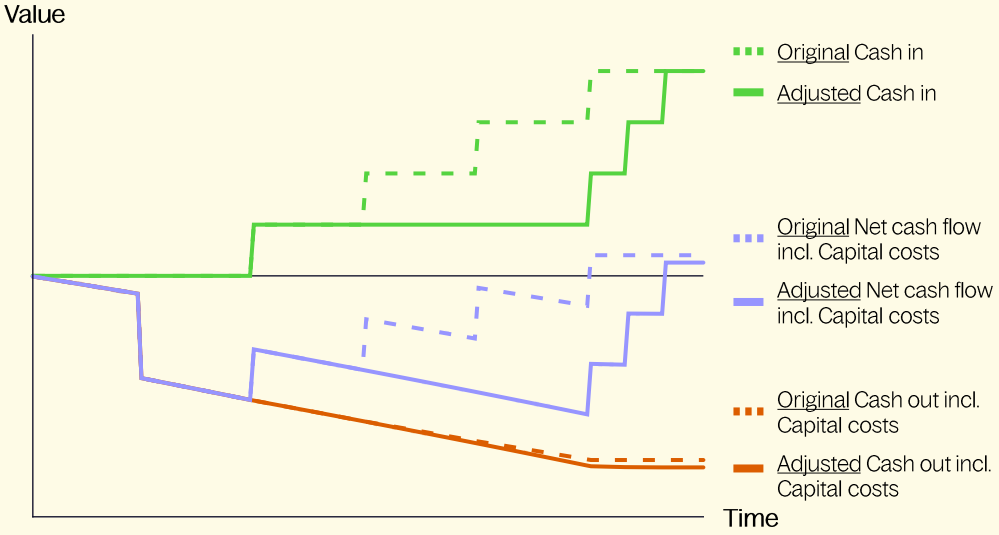
In project environments, change is almost inevitable – whether due to supplier delays, evolving customer requirements, internal resources shortages, or other disruptions. Regardless of the case, the financial planning process must continuously track how these changes influence financing needs and, consequently, capital costs.

Figure 4, illustrate how the previous example (Figure 3) is impacted by changes during project execution. In this new example, milestone deliveries are delayed and consequently also the payments from the customer. This situation increases the project's capital costs further.

A dynamic cash flow tracking process allows us to keep track of these new changes and make further informed business decisions. A static cash flow tracking would miss the fact that estimated profitability has now further decreased from the previous 10% to 8% (down from 15% excl. WACC) and a total decrease of almost 50% in project profitability.

With these two examples (static and dynamic perspective), we highlight how neglecting the capital costs of project cash flow planning can conceal financial costs directly related to operational performance, ultimately harming the project's profitability. We will explore how to mitigate these issues later, but first, let's turn to another core aspect of capital costs in project-based contexts: delays caused by administrative processes.

Figure 4. Comparison between original cash flow planning and dynamic adaption to new circumstances



Impact of delays, disruptions, and inefficiencies on capital cost

In project-based organizations and long-term projects with lots of functions and resources involved, the administrative steps and processes are many and could feel never-ending. Regardless of the number of steps and processes, they will have a profound impact on cash flow and capital costs. Delays or prolonged steps will accumulate across the project timeline with limited options to make up for them in later stages. Whether small or large, these delays ultimately come at a cost.

When one considers delays in projects, it is usually related to something like prolonged manufacturing, unavailable material, faults, or issues. Managing these delays is essentially about optimizing operations and production. We will not dive into this topic for now but rather focus on the more often overlooked aspect of administration. *Administrative and process-related issues* can be many in various shapes or forms, but some of the more common ones can be classified into:

- **Invoicing and payments:** Delayed invoice processing, invoice float, invoice errors, prolonged authorization process, outdated master information, etc.
- **Procurement and supplier invoice:** Delay of material received, non-compliant invoice terms, faulty specification information, etc.
- **Approval and documentation:** Prolonged approval cycles, faulty compliance documentation, limited information transparency, etc.
- **Resource allocation:** Insufficient resources for operations, inadequate competencies causing mistakes, etc.

Figure 5. Example of operative and administrative inefficiencies in project process

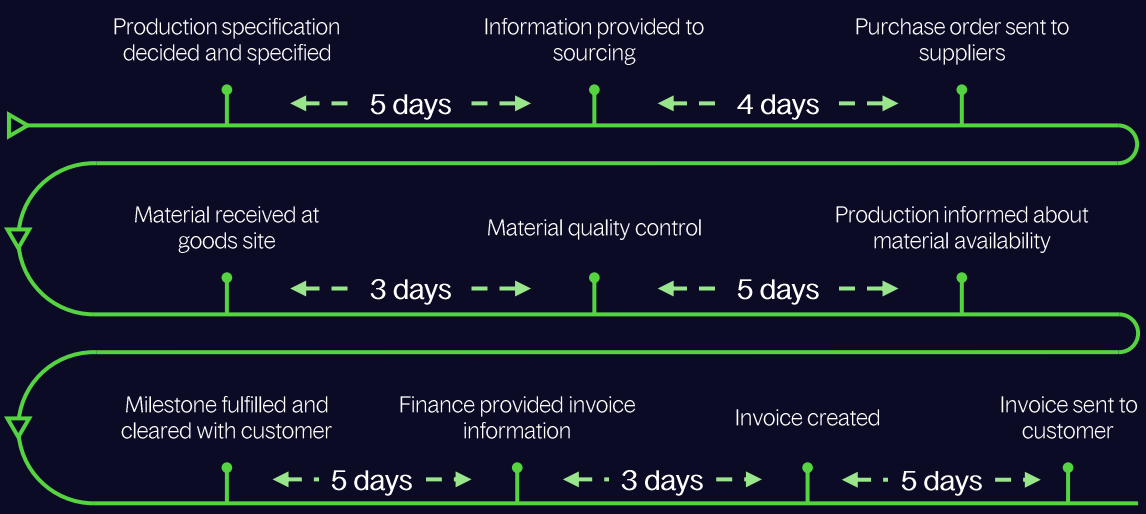
Along the project process, there is a never-ending list of potential issues, delays, or disruptions. It is extremely difficult to manage a project exactly according to plan with external factors, human errors, and suboptimizing processes impacting the outcome. As we saw in the previous chapter, delays or changes during projects will have an impact on cash flow and subsequently on capital costs. The financial impact of delays is often related to fines or additional rates to the customer, but we also must consider the additional financial costs of additional financing over time.

As illustrated below in figure 6, several administrative issues can accumulate to days of additional negative cash flow and prolong the need for additional financing and consequently increase capital costs beyond initially calculated.

In the example below, the project is delayed by an additional 30 days due to administrative and process inefficiencies. For a project averaging 100 MSEK in tied up net working capital, the additional capital costs for the project is approx. 1 MSEK using a 12% WACC as interest rate.

What can then be done to minimize the issues and consequently reduce the project's dependency on external financing and related capital costs? One key aspect is to optimize the operational efficiency by, for example, extending production capacity, reducing sourcing lead times, or improving resource flexibility. The operational efficiencies are an entire chapter on its own and usually require large investments or changes in operational processes (procurement policies, contract renegotiations, etc.). The impact can be significant, but it also often requires investments in resources and time.

Figure 6. Example of additional capital costs from administrative delays



The other aspect of reducing the delays in the project process is the *administrative actions*. It is often underestimated, but several minor steps accumulate to have a major impact on project performance. As seen in figure 5, there are several steps in a project process that can cause a delay from administrative processes or issues. Each of these steps can cause a delay in cash flow by several days, and over longer projects, the financial impact can be significant.

The financial impact of delays is often related to fines or additional rates to the customer, but we also must consider the additional financial costs of additional financing over time.

Managing the administrative issues is usually simpler than the operational ones. The issues are often related to internal systems and processes, giving you both ownership and ability to make impact changes without external interference. Still, there are challenges with aligning internal functions, managing suboptimization, and navigating internal politics. However, solving the issues usually requires less investment and time yet can have a significant impact on projects' financial performance.

Managing capital costs in project business

By now, you should have a clear understanding of why these aspects are important and how they can impact your organization. However, we can't conclude without addressing how to manage these challenges. While the approach vary by context, we will offer practical guidance that can drive meaningful improvement within your organization.

We will categorize the focus areas as either *financial* or *operational*, despite them being quite intertwined for this topic. As mentioned in the previous chapter, we will not dive into the core operational aspects, such as production capacity, sourcing strategies, or resource allocation. Instead, our focus will be on the area within your organization that you can more easily influence. Of course, the areas below can be further explored with context variation.

Financial activities

- Capital cost calculation tools and methodology
- Knowledge and understanding throughout the organization
- Governance and guidance

Operational activities

- Process optimization
- Information availability and data flow
- System automation

Financial activities

Capital cost calculation tools and methodology

Accurate calculation and forecasting of capital costs are fundamental for managing projects' financial performance. Having appropriate tools is key for enabling organizations to gain insights on performance and make informed decisions to manage capital performance.

1. **Implement robust tools**, such as comprehensive ERP-system or data visualizing programs, that consolidate project performance data to provide clear insights into capital cost-related financial information
2. **Ensure that ongoing cash flow simulations** are part of financial planning and follow-up processes
3. **Standardize methodologies** across projects for consistency and comparability

Knowledge and understanding throughout the organization

Sufficient financial literacy across all relevant levels of the organization is key for effectively managing cash flow and capital costs. Without the necessary understanding or knowledge, employees can't be expected to make informed decisions or work aligned toward efficiency targets.

1. **Conduct training sessions** to educate employees about the importance and impact of capital costs and a healthy managed project cash flow
2. **Facilitate collaboration between finance and operations** with aligned goals to avoid suboptimized targets
3. **Provide both finance and operations with sufficient insights** on capital and cash flow performance

Governance and guidance

Establish clear governance structures and guidance frameworks to consistently ensure that capital costs are managed with healthy working capital performance during project execution. The hindrances towards adapting new ways of working can be mitigated by focusing on the understandability of the guidance. Getting operations on board should be top on the management list on this topic.

1. **Develop governance policies** where KPIs assess cash flow, working capital, and capital costs performance, e.g., cash conversion rate, net cash flow development, or OTD (order to delivery)-performance
2. **Create decision-making frameworks and tools** to evaluate the financial implications of project disruptions, delays, or changes
3. **Regularly review management and governance principles** to adapt to the changing financial landscape (e.g., varying prioritization on financial cost with fluctuating interest rates)

Operational activities

Process optimization

Projects consist of an extensive list of different processes. Procurement, project management, reporting, invoicing, data management, etc. Optimizing both the core and supporting processes can generate large benefits for both project execution and reduce administrative lead times.

1. **Map and review both core and supporting processes** to identify bottlenecks and redundancies with methods such as process mining or value chain mapping
2. **Implement adjusted methodologies and tools** to enhance efficiency and reduce time and steps required for administrative tasks
3. **Encourage continuous improvements** of processes with feedback collection, performance data, and user ownership

Information availability and data flow

High availability of accurate data and information is critical for effective decision-making. It is also key for ensuring that administrative processes can run smoothly with reduced errors and disruptions. Projects with streamlined information flow throughout processes prevent delays in critical steps caused by waiting for information. Centralize and harmonize data management systems to integrate project, operational, and financial data.

1. **Standardize data and reporting formats** for increased understanding, continuity, and ease establishment of "one truth"
2. **Establish protocols and processes** for data input, especially more subjective or qualitative aspects that are critical for understanding and decision-making

System automation

One of the most common issues in administrative processes that cause project delays is human error. Minimizing the risks of errors by establishing automated processes and steps built on reliable data is one of, if not the most effective way of improving administrative efficiency.

1. **Implement automation tools** for routine tasks such as invoicing, cost calculations, or approval workflows
2. **Use data and insights** to automatically generate insights for decision-making with capital cost implications as an integrated aspect
3. **Enable scalability of systems** to manage project portfolio expansion and ensure continuous employee training in usage and understanding

Analyzing project-based organizations

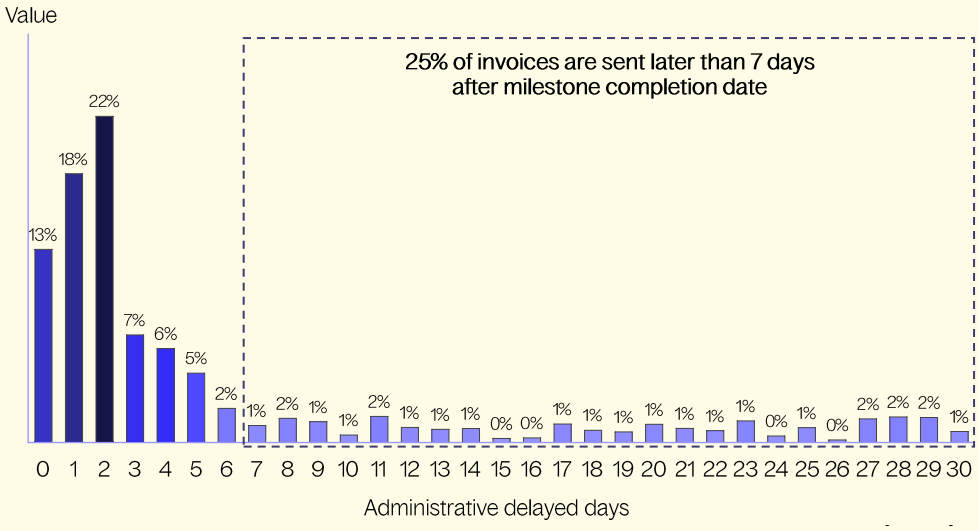
To drive changes and capitalize on improvements, we first must understand where we stand and where to focus our resources. Generating valuable insights via appropriate analysis gives a solid indication of where to do so.

Improving operational and financial performance with selected activities are essential requirements to improve cash flow and working capital performance. However, we still need to understand our processes and performance to decide where to focus our efforts. There are several methods of gaining these insights: value stream mapping, current state analysis, or root cause analysis to mention a few.

What really creates valuable insights are the combination of context adaption, qualitative understanding from interviews and knowledge, and data analysis to quantify performance and potentials. Understanding what analysis is appropriate is often challenging and require adaption to your specific situation, but there are often similarities and foundational data to be used in the assessment of your current performance.

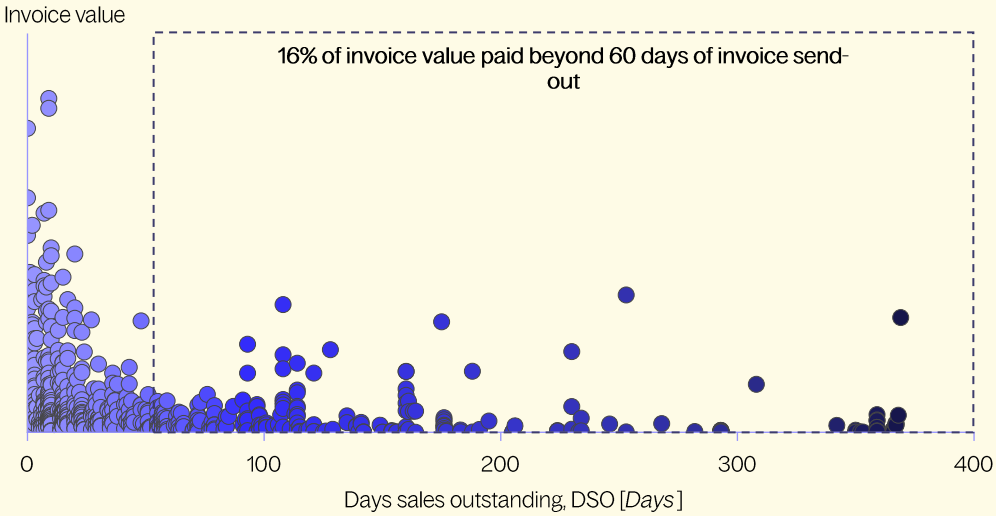
In the coming section, we will give you some additional examples of how to generate insights to better understand your company's performance. The required data is usually available in the internal ledgers and can highlight both process inefficiencies and "low-hanging fruit" to capitalize on.

Figure 7: Internal administrative delay impact on cash flow analysis



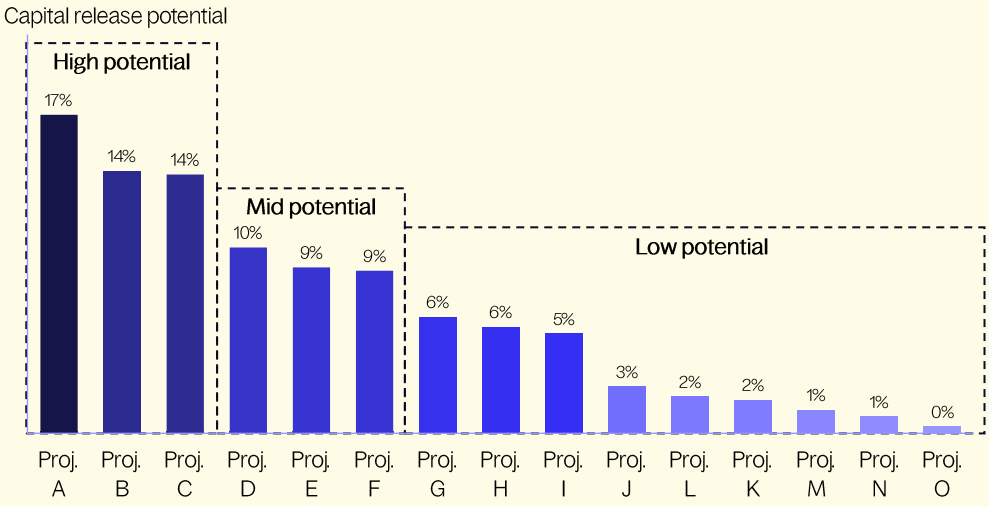
Analysis highlighting internal cash flow issues due to internal inefficiencies by analyzing the difference between milestone completion date and invoice send-out date. A slight administrative processing lead time is expected, but outliers highlight negative cash flow impact.

Figure 8: Invoice value and payment pattern analysis



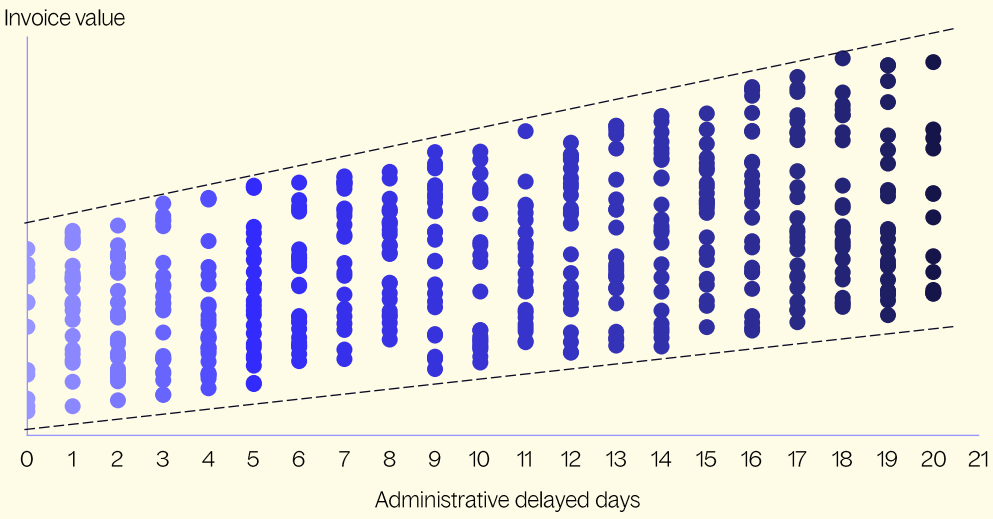
Analysis highlighting overdue patterns where invoice criteria in either not fulfilled or disputed, leading to outstanding cash and additional capital costs. Emphasize the additional importance of monitoring overdue invoices and ensure invoice criteria are met for invoice send-out.

Figure 9: Internal capital release benchmark



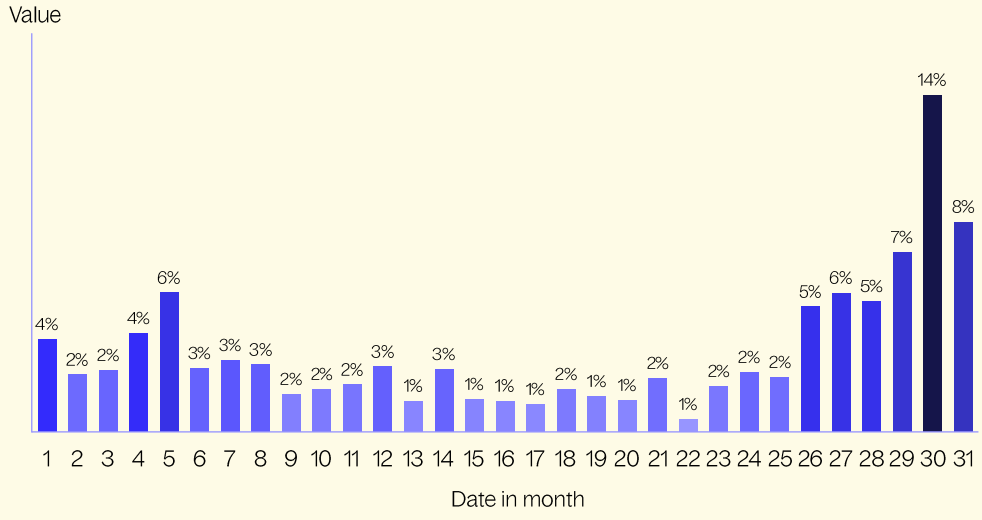
Calculating the potential cash release per project provides an overview of the current performance and insights on which sections of the organization to launch improving activities in. Scalable activities can be launched in selected entities with spill-over effects from activities and process developments transferred to lower prioritized entities.

Figure 10: Invoice administrative process differentiation



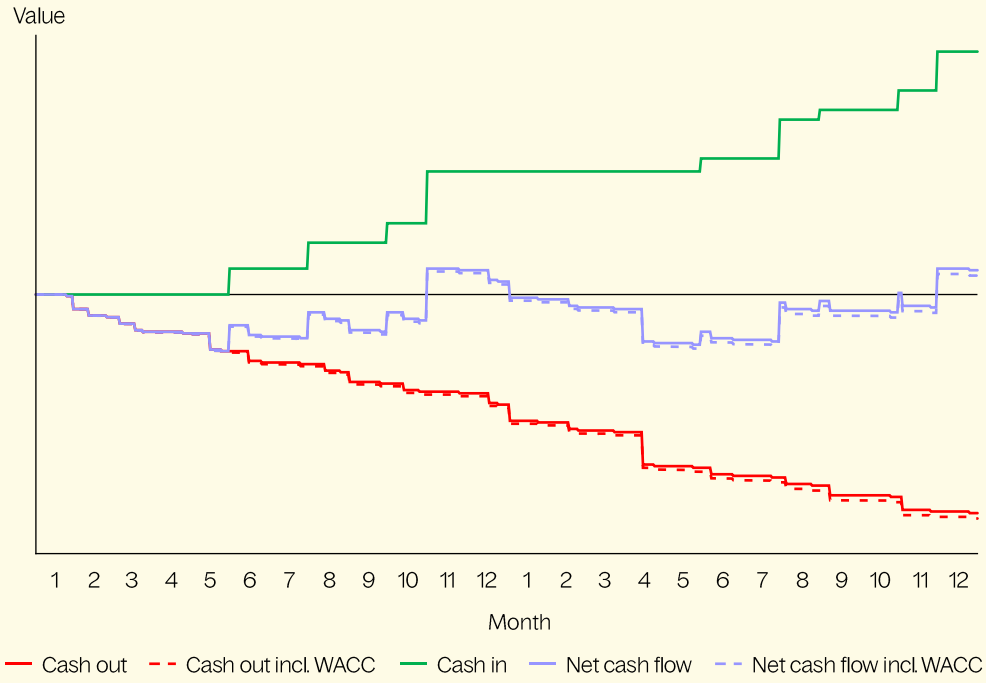
Mapping each invoice against the administrative days from milestone completion date to invoice send-out date highlights process inefficiencies and differentiation between invoices and milestone types. In the example, there is a trend of lower value invoices being processed quicker and extensive authorization steps for higher value invoices.

Figure 11: Invoicing monthly pattern analysis



Analysis highlighting internal invoicing administrative patterns in the month indicating bundling invoicing or delayed invoice send-out and consequently prolonging administrative time. Utilize analysis to identify process inefficiencies and potential cash flow impact.

Figure 12: Project cash flow capital cost profitability impact



Analysis highlighting the impact of capital costs during project execution and, consequently, impact on project profitability. In the example, the project's profitability is decreased from 10% to 8% when considering capital costs from negative cash flow during execution. Utilize analysis during the planning phase, insight generation post execution, or ongoing during project to identify deviations from plan.

Conclusion

Operational inefficiencies result in excessive financing needs and additional capital costs

In this paper, we have emphasized the importance of managing working capital and cash flow in project-based organizations. These types of businesses face unique challenges, different from the typical "off-the-shelf" companies, and require additional focus on the time perspective. The context is shaped by milestone-driven operations, long timelines, and complex financing solutions. The challenge for these companies is not only balancing one specific project's performance but rather the accumulated performance of the entire project portfolio. By understanding the complexities and challenges, we can effectively identify solutions to commonly occurring issues.

We began by exploring the additional complexity of the balance sheet, focusing on managing contract assets and contract liabilities that impact the working capital performance and create a more dynamic approach to account for value created. These accounts directly impact cash flow performance and serve as an indicator of the project's financial health. Managing these components requires a shift in perspective from viewing the balance sheet as a static metric to recognizing its active role in impacting cash flow performance over time.

> Companies that prioritize managing capital costs subsequently also gain positive benefits with more efficient operations and improve their P&L.

Central in this paper has been the emphasis on cash flow as a strategic priority and the subsequent hidden costs. Historically, companies focus on the P&L and profitability of the projects and neglect the financial performance over time. We highlight how capital costs can negatively impact a project's profitability and why it is critical to maintain a strong cash flow during the project lifecycle. Companies that prioritize managing capital costs subsequently also gain positive benefits with more efficient operations and improve their P&L.

The previous sections have also highlighted the impact of delays or inefficiencies on capital costs with, for example, prolonged administrative processes, operational bottlenecks, and uninformed decision-making. However, some actions can mitigate the challenges, such as proactive planning, robust governance processes, or adequate data and information flow, which will improve the cash flow performance with insightful decision-making.

Organizations that embrace these insights can unlock benefits for the organization. A single day of improvement in lead-times will improve cash flow performance, improve balance sheet distribution, and reduce costs in the P&L. Additionally, these improvements create ripple effects, driving greater operational efficiency and overall business performance.

We emphasize that managing working capital and cash flow in project-based organizations is not just about financial performance but also operational efficiency. Neglecting the cash flow performance can be more costly than it first appears, and the ones that focus on these aspects have significant benefits to gain.

As we conclude this section, we encourage you to embrace this hopefully enlightened perspective. In our experience, companies applying these practices gain benefits both in the short- and long-term. It requires both management focus and operational adaption, but the benefits are significant.

Looking ahead, the trends of increased technological advancements with AI, analytics, and data integration will provide further opportunities to improve administrative steps and streamline processes further. The end goal of fully seamless operations might be a utopia, but the path towards it will improve efficiency.

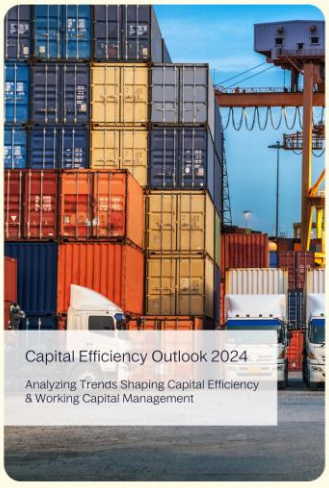
Client testimonial

Realizing how much additional costs our inefficient processes created was really eye-opening. We focused on managing our revenue and COGS but missed the additional costs of mismanaging our working capital. Implementing cash flow ownership was our first key activity that increased the focus on improving our situation significantly.

CFO of Global manufacturing company

Further reading

Find more information on the same topic



Capital efficiency outlook

Insights on the latest capital efficiency and working capital performance among Swedish companies

Sales & Operations Planning – The key to balancing supply and demand

Insights on navigating sourcing and production balance in disruptive landscapes

Glossary and abbreviations

Glossary

Balance sheet: A snapshot of the value of a company's assets and liabilities at a given point in time

Capital Costs: The costs incurred for financing projects' operations

Contract Assets (CA): Financial account representing the value of assets in the balance sheet related to work completed but not yet invoiced to the customer

Contract Liabilities (CL): Financial account representing the value of liabilities in the balance sheet related to payments received from the customer for work not yet completed

Net Operating Working Capital (NOWC): The capital invested in operations day-to-day business. Calculated using Inventory + Accounts Receivable + Contract Assets – Accounts Payable – Contract Liabilities

Profit and loss statement (P&L): The summarization of the revenue and costs for a specific period

Weighted Average Cost of Capital (WACC): A financial metric that calculates a company's costs of capital using the relative weight of equity and debt

Abbreviations

AP: Accounts payable

AR: Accounts receivable

P&L: Profit and loss statement

WACC: Weighted average cost of capital

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Manager – Operational strategy

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