

Worldwide DSO: Paying the penalty for low growth

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Executive summary

- Euler Hermes expects global Days Sales Outstanding (DSO) to remain around 64 days in 2016. In 2015, 1 out of 4 companies worldwide was paid after 90 days, on average.
- Electronics, Machinery & equipment and Construction are the sectors where companies wait the longest to get paid: 89, 87 and 81 days in 2015. Those closer to the consumers – Retail, Food, Non-business services, and Transportation – report a DSO below 50 days.
- DSO is increasing again in China where it is forecast to reach 92 days in 2016, the highest level worldwide. Conversely companies speed up payment terms in Western Europe where DSO stands on average at 60 in 2015 and is expected to decrease slightly to 59 in 2016.

1 out of 4 companies worldwide is paid after 90 days

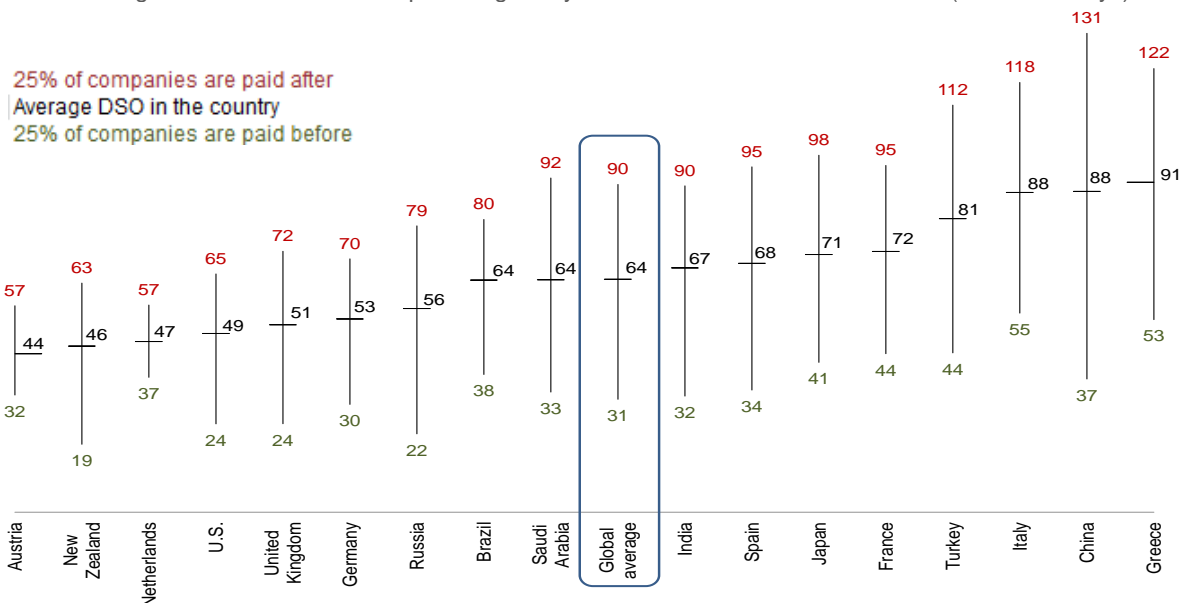
Based on our panel of 27,300 listed companies worldwide, the average DSO (Days Sales Outstanding) has remained almost stable at 64 days since 2010. However, the time needed to collect trade receivables is very uneven across companies, countries and sectors.

In 2015, 25% of the **companies** included in our panel had to wait for 90 days or more to get paid by their clients; while 25% collected their dues within 31 days. The rest of them were paid between 1 and 3 months.

Payment practices vary widely between countries

Greece, China and Italy are the countries where it takes the longest for companies to get paid: 91, 88 and 88 days respectively in 2015. China is also the country reporting the highest heterogeneity in payment practices with 25% of companies paid after 131 days. Conversely, payment terms are the fastest in Austria, New Zealand and the Netherlands where DSO stood at 44, 46 and 47 respectively in 2015.

Figure 1: DSO level and dispersion globally and for selected countries in 2015 (number of days)



Sources: Bloomberg, Euler Hermes

Sector wise: The closer to the final consumer, the faster the payment

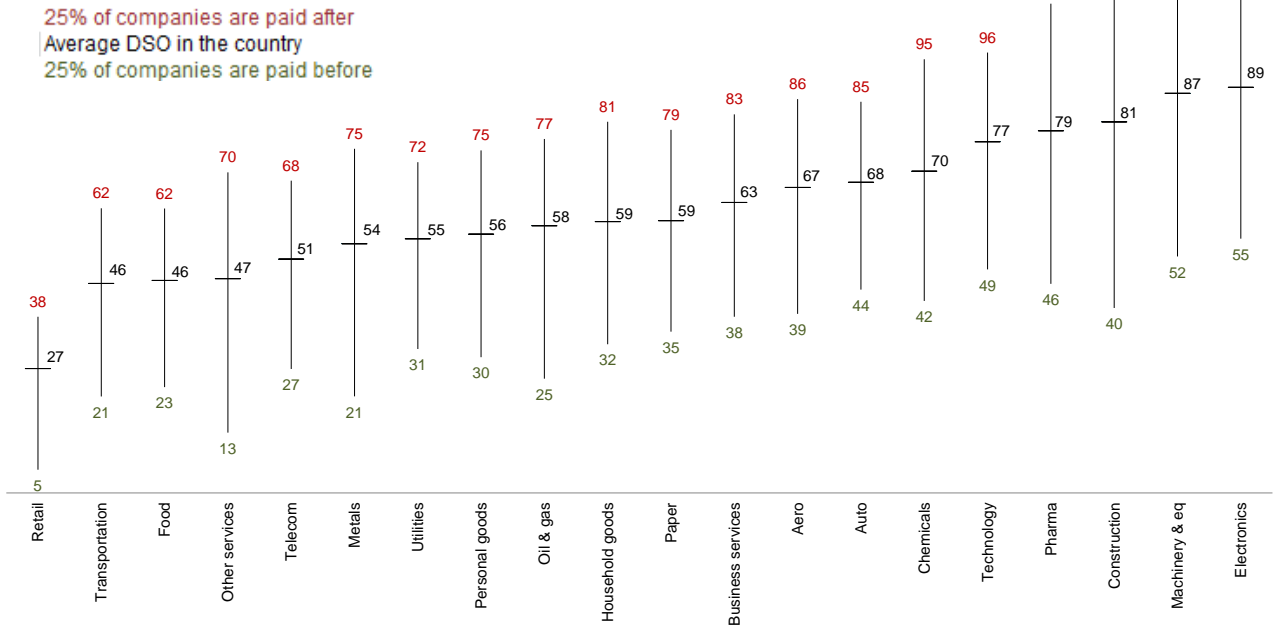
Electronics, Machinery & equipment and Construction are the three sectors where companies have to wait the longest to get paid: respectively 89, 87 and 81 days on average in 2015.

The first two sectors suffer from their upstream positioning which transfers to them all payment delays happening along supply chains.

The Construction sector is also interesting regarding the heterogeneity in payment practices between companies explained by the high fragmentation of the sector: 25% of them have to wait 113 days or more to recover their trade receivables, while 25% get paid within 40 days.

On the other side of the spectrum, Retail had an average DSO of 27 days in 2015, with 25% of companies being paid before 5 days. Other sectors oriented towards consumers – Food, Non-business services, and Transportation – also reported an average DSO below 50 days in 2015. However, given the disparity of Services activities, payment practices are quite heterogeneous in the sector with 25% of companies paid after 70 days.

Figure 2: DSO level and dispersion by sector in 2015 (number of days)



Sources: Bloomberg, Euler Hermes

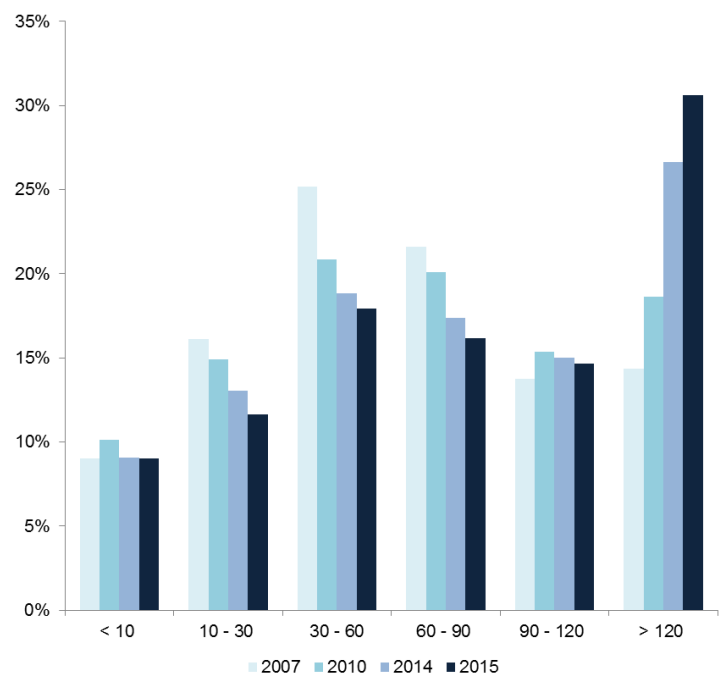
Payment terms are extending once again in China and Brazil

The global stability of DSO hides two different trends when it comes to the evolution of payment terms practices across countries. In 2015, it took on average 68 days to be paid in emerging markets compared to 59 in advanced economies. Five years before the spread between DSO in the groups of countries was limited to 4 days. In 2016, we expect it to rise to 12 days, driven by a strong increase in China and Brazil.

In China firms had to wait 88 days in 2015 to get paid, +5 days more than in 2014 and +20 days compared to 2007. In 2016, we forecast DSO to reach 92 days on average driven up by two main factors.

First, the slowdown of the economy limits revenue generation and pushes firms to postpone the payment of their invoices. Second, the large amounts of cash accumulated by Chinese listed companies give them financial buffers to be more flexible when it comes to trade receivables. Indeed listed companies have doubled their level of cash & cash equivalents since 2010 and are able to support their clients by acting as an alternative to bank financing. However, this model might prove risky in the longer run, markedly for companies which would not be considered as strategic by the State anymore.

Figure 2: DSO evolution in China between 2007 and 2015 (% of Chinese companies paid within a given time period, in number of days)



The situation is thus challenging in Electronics where DSO stands at 139 days, +37 days since 2010; Machinery & equipment industry (134 days in 2015, + 22 vs. 2010) and Construction (110 days in 2015, +33 vs. 2010).

In Brazil, DSO increased to 64 days in 2015, compared to 61 one year before as companies in the country suffer from a general disorganization caused by the economic slowdown. In 2016 with recession still going on, DSO is expected to increase by another +3 days and reach its highest level since 2007.

Russia stands out as an interesting counter example of the evolution of DSO in emerging markets. Between 2007 and 2014, DSO increased by +9 days to 60 days as companies were catching up with international standards. In 2015, DSO decreased to 56 days, well below the world average. As confidence in the business environment is too low, parties resort to cash transaction to avoid credit risk putting a cap on DSO.

In the U.S., the average DSO remains stable around 50 days, but industries are divided

In 2016, the average DSO of listed companies in the U.S. is forecast to stabilize at 50 days, after 49 days in 2015 and 50 in 2014. Payment practices are quite homogeneous within the country with 1 out of 2 companies paid between 24 and 65 days. However, this stability hides two different dynamics across sectors in 2015.

Sectors considered at low risk – Pharmaceuticals and Chemicals – relaxed their payment policies with an increase by +4 days of their DSO. The average DSO in the U.S. Pharmaceutical industry stands at 62 days. Because of a sharp increase in the price of drugs, health insurers find it more difficult to reimburse the funds they advanced to laboratories. Given their large financial buffers, the latter extended deadlines to recover the funds they advanced to hospitals. The increase in DSO of the Chemicals sector to 51 days is related to financial struggles in the main outlets of fertilizers and plastics. These companies attempt to obtain longer terms from their chemicals suppliers and pay their debts later than before.

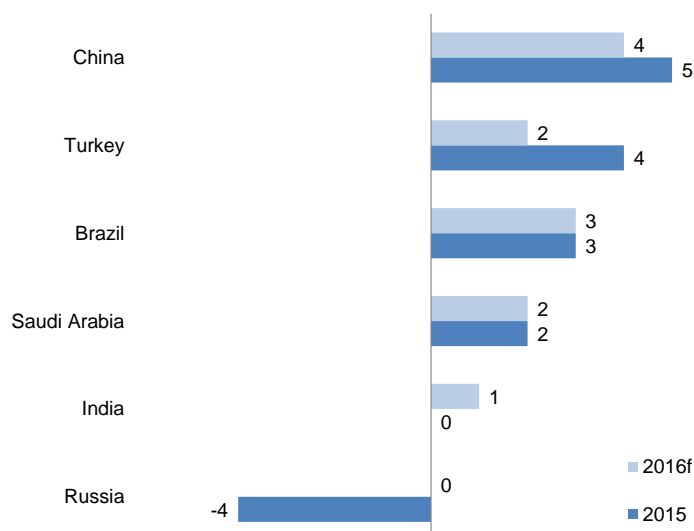
Conversely, DSO decreased by -4 days in industries going through economic hard times – Metals and Energy – to 57 and 50 days respectively.

Listed companies tightened their payment policies in order to cope with reduced operating cash flows caused by the slide in commodity prices. However this tightening was not enough to prevent these two industries from a downgrade to sensitive risk in Q4 2015 and Q1 2016.

Companies speed up payment terms in Western Europe, but practices remain uneven across countries

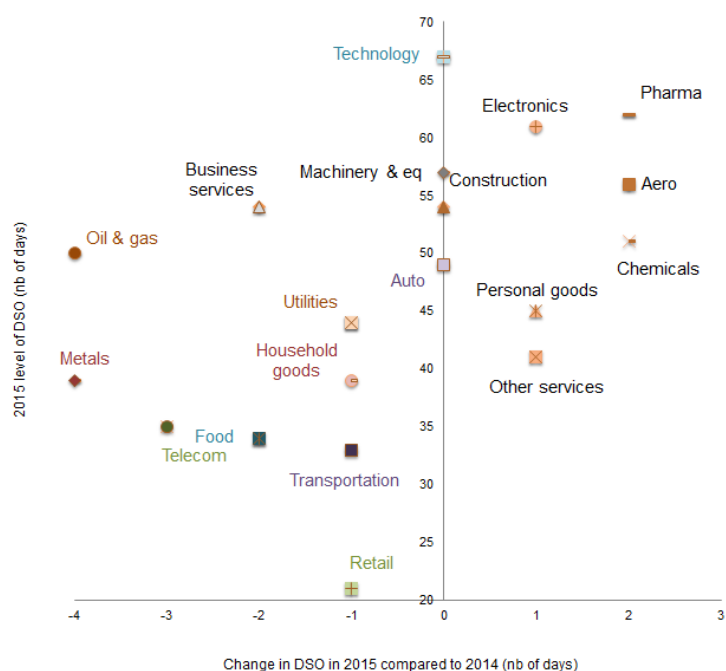
In 2015, Western European companies had to wait on average 60 days to collect their trade receivables, -2 days less than in 2014.

Figure 4: Change in DSO in 2015 and 2016 forecast in major emerging markets



Sources: Bloomberg, Euler Hermes

Figure 5: DSO level by sector in the U.S. in 2015 and change compared to previous year



Sources: Bloomberg, Euler Hermes

The most significant decline took place Greece where the average DSO went down from 101 days in 2014 to 91 in 2015. In this country, austerity measures and privatizations forced companies to tighten the management of their trade receivables.

In Norway and the UK, DSO decreased by -3 days, mainly because of tightening payment terms in the Energy sector.

DSO decreased also rapidly in Spain (-6 days), Sweden (-3), Italy (-3 days) and France (-2 days) thanks to a rebound in economic activity.

In terms of sectors, Technology reported the strongest decrease in Western Europe last year with DSO down -7 days to 82. This suggests European tech firms are becoming more mature regarding the management of their trade receivables and thus get closer to the region average.

In line with more dynamic activity, European Construction industries also benefit from shorter payment terms in 2015 with DSO decreasing by -4 days to 65 on average. Most rapid declines occurred in Spain (-18 days) and Italy (-8 days) while Portugal was the only country to report an increase.

In 2016, Euler Hermes forecasts DSO to keep decreasing as European businesses should benefit from an acceleration in revenue generation thanks to the improving momentum in GDP growth to +1.6% (2016 forecast), after +1.5% in 2015. In the Eurozone, the ECB QE further encourages companies to speed up payment terms thanks to easier access to credit.

Despite this global improvement, payment practices will remain very uneven among countries and European countries can be classified into two groups when it comes to payment terms.

The first group is composed of Northern European countries where the average DSO stands around 50 days on average and where payment practices are quite homogeneous.

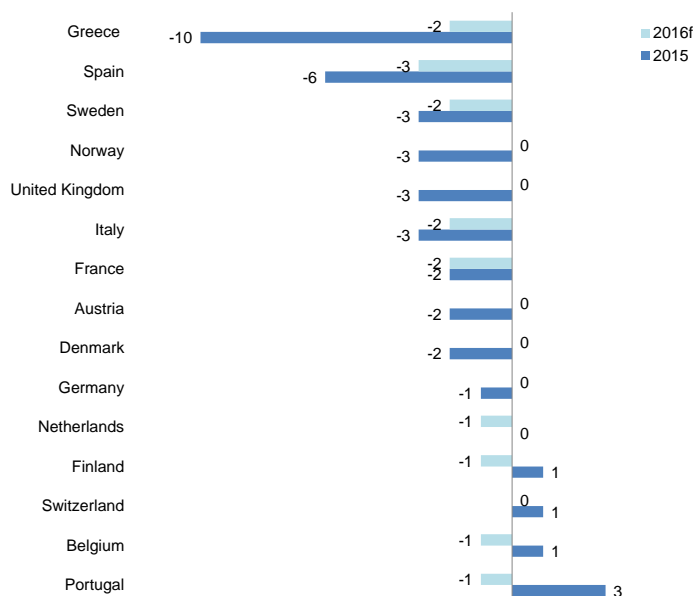
These include Austria where it takes only 44 days for companies to collect their dues, the Netherlands (47), Switzerland (48), the Nordics (50 days), the UK (51) and Germany (53).

In all those countries the spread in payment practices also appears much more limited than the global average with 46% of firms paid between 30 and 60 days and only 7% waiting more than 90 days.

The second group is composed of Mediterranean countries where DSO stands above 60 days.

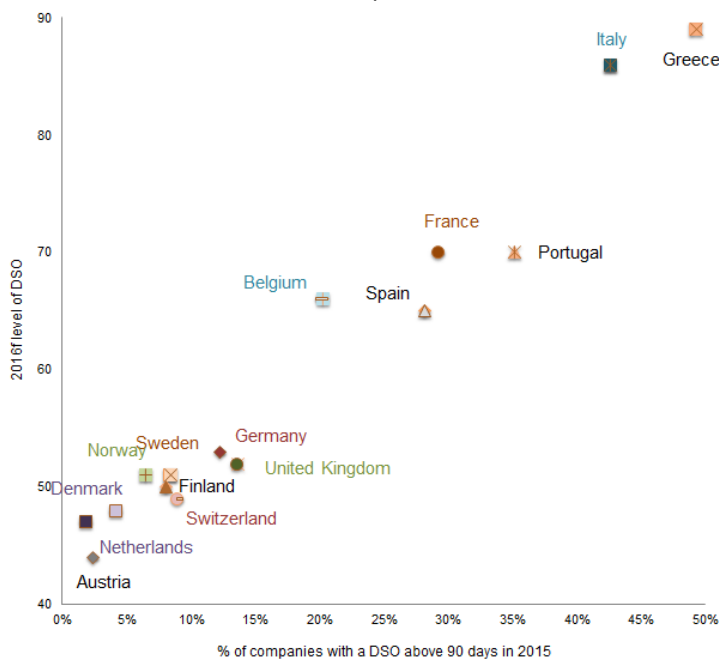
These include Spain where DSO are forecast to stand at 65 days in 2016, Portugal (70f), France (70f), Italy (86f), Greece (89f) and also Belgium (65f). In these countries, 30% of suppliers wait more than 90 days to recover their trade receivables while only 28% are paid between 30 and 60 days.

Figure 6: Change in DSO in 2015 & 2016 in Western European countries (number days compared to previous year)



Sources: Bloomberg, Euler Hermes

Figure 7: 2016 DSO forecast and dispersion in Western European countries



Sources: Bloomberg, Euler Hermes

Global DSO Heat map in 2015

	Retail	Transport.	Food	Other services	Financials	Telecom	Metals	Utilities	Personal goods	Oil & gas	Household goods	Paper	Business services	Aero	Auto	Chemicals	Technology	Pharma	Construction	Machinery & equipment	Electronics	Country average
Austria	-	38	46	27	-	-	39	48	26	49	-	-	-	-	25	-	-	-	43	54	-	44
New Zealand	13	38	55	23	39	38	-	33	44	38	77	-	43	-	-	-	85	77	54	77	83	46
Netherlands	6	39	46	56	64	-	-	-	35	48	54	-	67	-	-	49	61	-	41	49	42	47
South Africa	23	41	46	44	55	41	37	-	43	-	34	46	59	-	-	56	72	71	51	56	61	48
Switzerland	15	20	41	27	-	-	51	61	50	-	64	64	55	-	-	74	54	79	50	54	59	48
Denmark	22	52	40	25	30	-	-	-	44	34	42	-	53	-	-	-	52	69	52	67	44	48
U.S.	22	34	34	41	52	35	39	44	45	50	39	33	54	56	49	51	67	62	54	57	61	49
Finland	10	29	26	30	39	-	35	-	53	-	44	42	47	-	-	-	73	-	36	61	69	50
Australia	24	38	50	58	35	45	37	42	53	43	53	93	57	47	48	64	67	68	51	58	78	50
Norway	8	32	52	35	67	45	42	39	74	56	-	-	65	-	-	50	61	64	58	64	55	51
United Kingdom	16	35	47	44	52	44	34	52	39	44	36	54	58	46	42	75	83	71	43	67	77	52
Sweden	21	35	40	33	32	35	44	31	62	24	41	36	64	-	58	30	70	57	52	63	67	52
Germany	25	40	40	45	53	63	60	43	55	57	37	13	55	43	59	53	68	64	49	54	64	53
Canada	20	45	32	48	61	40	34	46	80	71	52	39	55	58	80	45	84	89	59	64	64	55
Russia	14	27	40	17	46	-	54	53	60	55	46	39	40	75	75	28	77	100	66	68	77	56
Bulgaria	55	52	48	25	66	-	42	35	51	78	67	55	38	-	55	72	-	58	100	72	42	59
Poland	35	58	53	62	40	46	44	36	48	49	59	51	74	41	46	52	74	71	65	79	77	60
Hong Kong	31	44	42	46	32	33	57	54	55	79	60	55	70	-	80	78	74	95	72	106	86	63
Brazil	60	42	46	62	57	81	48	63	105	42	63	69	65	74	51	50	74	82	61	95	-	64
Chile	56	47	62	71	66	66	49	71	65	-	81	35	58	-	-	78	74	-	70	76	-	64
Saudi Arabia	33	81	39	45	78	77	55	85	-	-	109	-	98	-	-	66	-	-	70	63	131	64
Belgium	39	75	55	52	75	62	31	97	45	72	-	-	66	-	-	43	86	146	61	74	73	66
India	50	46	41	61	65	37	54	69	55	61	52	50	88	-	56	73	90	75	75	85	99	67
South Korea	31	44	46	53	51	64	69	54	57	51	59	68	57	52	67	65	69	105	72	81	67	67
Spain	17	-	48	52	52	50	54	47	68	99	51	58	70	-	-	-	100	56	98	108	-	68
Japan	23	50	52	38	18	73	81	41	62	53	67	88	61	98	69	96	74	96	106	105	97	71
Portugal	15	96	66	59	36	-	-	74	-	-	-	47	-	-	-	-	122	-	86	-	-	71
France	32	62	64	80	93	50	48	80	53	85	61	45	83	76	45	64	98	70	66	88	72	72
Singapore	31	59	47	33	44	42	77	102	70	89	76	61	87	82	68	85	87	52	80	87	90	72
Taiwan	33	34	44	28	33	38	56	41	56	61	58	55	71	72	77	74	71	75	68	97	97	73
Romania	45	66	71	25	40	-	45	59	29	79	55	60	68	58	61	79	-	-	95	98	84	73
Turkey	27	40	68	69	43	107	63	37	84	74	90	86	80	-	80	81	125	110	109	89	87	81
Morocco	62	-	60	79	122	-	57	-	-	40	-	-	-	-	-	-	125	96	77	-	-	83
Italy	48	73	65	100	113	62	36	111	65	95	100	-	105	-	45	127	115	63	110	88	74	88
China	21	47	38	48	31	47	71	52	62	125	75	96	82	135	107	76	111	96	109	134	139	88
Greece	52	49	96	57	51	-	98	-	73	16	99	-	100	-	-	103	107	-	125	126	-	91
Sector average	27	46	46	47	49	51	54	56	57	58	59	59	63	67	68	70	77	79	81	87	89	64

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