

Payment behavior: Who's paying the piper?

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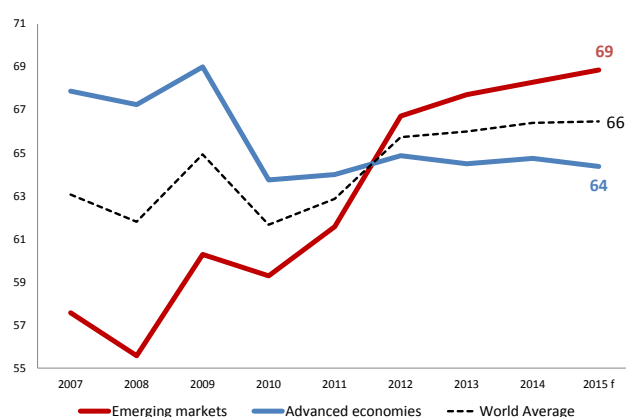
Executive summary

- We expect in 2015, the global Days Sales Outstanding (DSO) of listed companies will level off at 66 days. However, this stability masks two opposite trends: emerging markets' DSO will be 5 days above that of advanced economies rather than 10 days below, as was the case in 2007.
- This spread is most important for industrial goods and technology (respectively +16 and +19 days between 2010 and 2014). In addition, B2B activities continue to experience longer DSO on average. Telecom remains the sector to post the strongest and most generalized rise in DSO (+10 days since 2010).
- DSOs in China and Russia have increased massively (+22 and +17 days since 2007 respectively). The economic turmoil in Brazil will cause DSO to increase by +2 days in 2015. In advanced economies average DSO is broadly stabilizing, except in the UK where it's risen +4 days since 2010.

In 2015, average Days Sales Outstanding (DSO) for listed companies in emerging markets is expected at 5 days above that of advanced economies. They were 10 days below in 2007

The global average DSO in 2015 is expected to remain unchanged at 66 days for the fourth consecutive year. However, this global stability hides two opposite trends between advanced economies and emerging markets. The internationalization of companies in emerging countries resulted in their payment behavior catching up in 2012: emerging market DSO rose above those of advanced economies for the first time at 67 vs. 65 days. Since then, emerging markets have gone through economic struggles, and their business environment remains challenging. This has led to a fundamental shift, with DSO in emerging markets overtaking those in advanced economies by 3 days in 2014. Euler Hermes expects this situation to persist and even gain momentum in 2015, with the spread rising to 5 days.

Chart 1: Change in DSO in Advanced economies and Emerging markets (number of days)



Sources: Bloomberg, Euler Hermes

This spread most important for industrial goods and technology (respectively +16 and +19 days between 2010 and 2014)

With the exception of Oil and gas, every sector has been involved in the rapid DSO increase in emerging markets. This evolution is most striking in Technology, Industrial goods and Automotives. The first two sectors, with Healthcare, are also showing the highest level of DSO in the panel, at 91 and 75 days respectively in 2014.

Industrial goods is the most emblematic sector of this global DSO trend. Its steady rise in emerging markets (+16 days since 2010) has been mainly driven by China (+22 days). On the contrary, the sector's DSO has remained flat in most advanced economies, except for the +11 day increase in the United Kingdom.

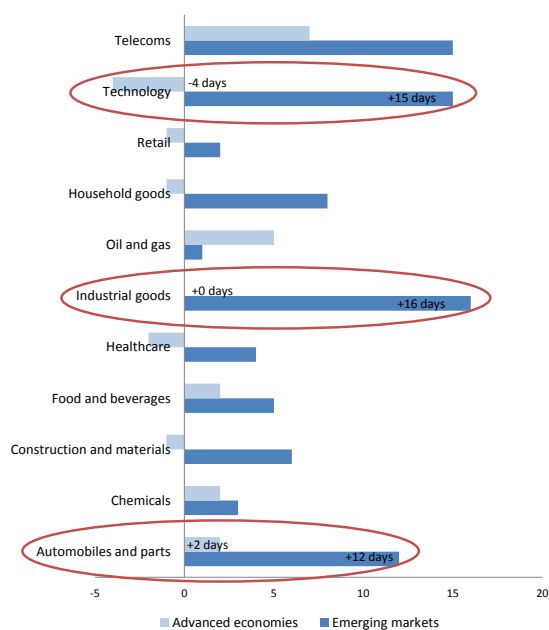
The Oil and gas exception- +5 days in advanced economies vs. +1 days in emerging markets- can be explained by excessive cash accumulation within major firms as opposed to stronger constraints in emerging countries' companies. This excess liquidity enables oil and gas firms in advanced economies to be more flexible regarding the payment timing of their clients. However, this evolution is not likely to last in the long run. New investments are highly required for the sector to remain profitable and will thus raise some liquidity constraints. Overall, every sector has faced a rise in (or at least leveling off of) their DSO between 2010 and 2014, mainly driven by the soaring evolution in emerging markets.

B2B activities continue to experience longer DSO on average. Telecom remains the sector to post the strongest and most generalized rise in DSO (+10 days since 2010)

Between 2010 and 2014, the global DSO in the Telecom sector increased by +10 days, compared to a +4 days average in all other sectors. This evolution occurred across our entire panel, except in France and India where the sector's DSO decreased by -5 and -4 days respectively. As seen above, industrial goods and automotive parts have also faced a strong increase in their global DSO levels. Contrarily, the average DSO in the Retail sector has remained flat at 34 days (the lowest level in our panel).

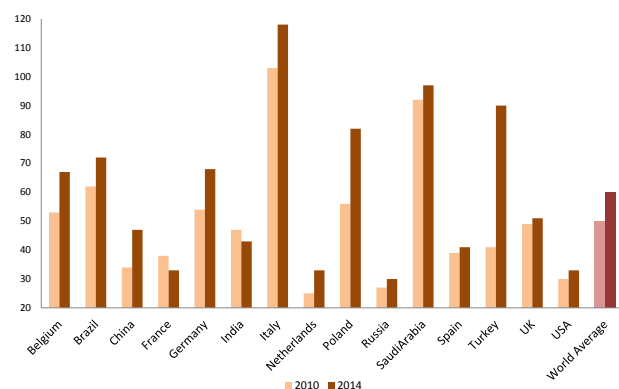
The low level of DSO in the retail sector is characteristic of the structural opposition in payment practices between B2B and B2C businesses. Companies which are directly in contact with the final client are indeed paid much faster than the ones involved in intercompany credits.

Chart 2: Change in DSO by sector between 2010 and 2014 in advanced economies and emerging markets (number of days)



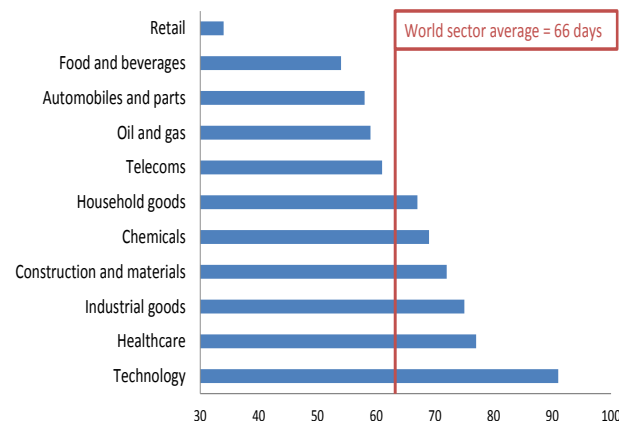
Sources: Bloomberg, Euler Hermes

Chart 3: Change in DSO in the Telecom sector between 2010 and 2014 (number of days)



Sources: Bloomberg, Euler Hermes

Chart 4: World average DSO by sector in 2014 (number of days)



Sources: Bloomberg, Euler Hermes

DSOs in China and Russia have increased massively (+22 and + 17 days respectively since 2007). The economic turmoil in Brazil will cause DSO to increase by 2 days in 2015.

China's DSO evolution is the most representative example of emerging countries soaring payment period. Chinese listed companies used to be paid 9 days earlier than the world average in 2007. They will have to wait 10 days longer than their international peers in 2015. Three main drivers explain this evolution. First, Chinese listed companies are becoming more and more global and have to adapt to international payment standards. Second, Chinese firms are suffering from the country's growth slowdown which is expected to continue its decline to +7.1% in 2015 after an average +7.6% between 2012-2014, and +10.5% during 2007-2011. Last but not least, intercompany credit is one of the main alternative sources of financing since the government tightened access to bank credit. The regulation has been made tougher since 2012 not only regarding the criteria for Chinese firms seeking bank credit, but also in order to tackle shadow banking. The Russian DSO is also on a long term rise. However, it remains at extremely low levels (49 days in 2015), reflecting the low level of firms' confidence to trade on credit. After a steady decline in 2013 and 2014, Brazil DSO will increase by +2 days in 2015 in line with the economic recession (-1% in GDP growth).

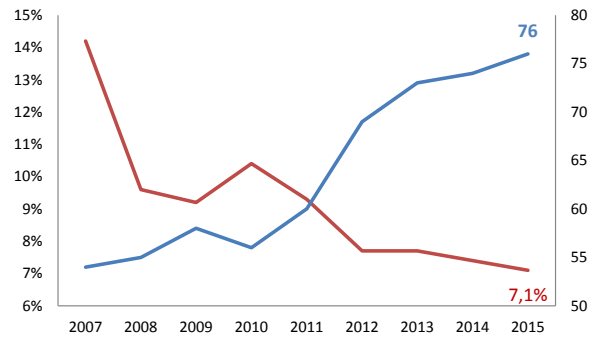
In advanced economies, average DSO is stabilizing except in the UK where it rose by +4 days between 2010 and 2014

The average DSO in advanced economies is expected to decline slightly to 64 days in 2015, from 65 in 2014, returning to its 2010 level.

In Italy, DSO stands 33 days above the world average and is expected to show a minor decline: -1 day in 2015 (after the 2014 stabilization and the -1 day decrease of 2013). Nonetheless, companies continue to face very long payments from public entities. The UK seems to go against the tide with a +4 days increase in DSO since 2010, the rise seen in almost every sector (except Oil and gas). This highlights the fact that the economic recovery has been very fast and sudden. As a consequence, firms had to rely on longer payment terms to finance their growth and investments. 2015 should lead to a stabilization of the trend in the country with growth moderating slightly to +2.2%.

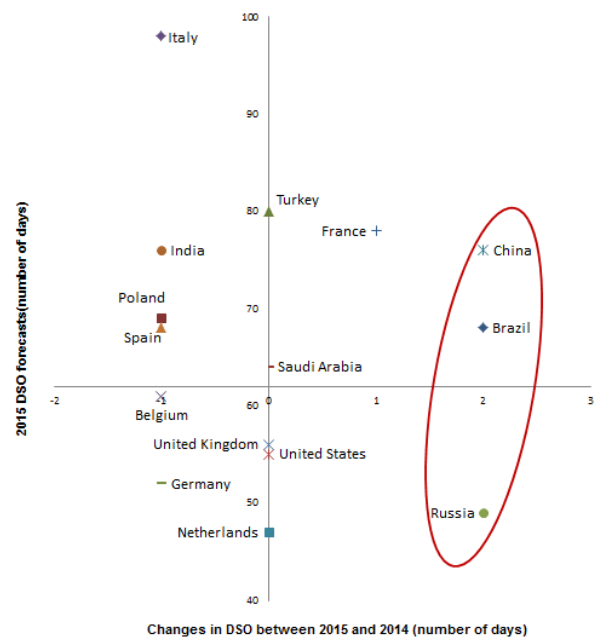
To a lesser extent, France is expected to face a similar situation in 2015 as economic growth gains momentum to +1.2%. French DSO is expected to increase to 78 days getting back to the level of 2007.

Chart 5: Change in DSO and GDP in China between 2007 and 2015



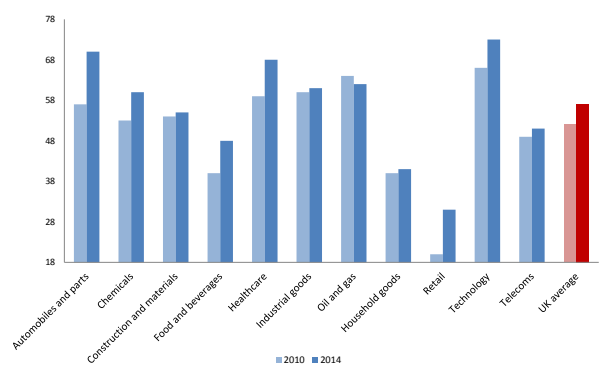
Sources: Bloomberg, Euler Hermes

Chart 6: Country DSO level in 2015 and changes compared to 2014 (number of days)



Sources: Bloomberg, Euler Hermes

Chart 7: Change in DSO in the UK between 2010 and 2014 (number of days)



Sources: Bloomberg, Euler Hermes forecasts

Global DSO Heat map (number of days, 2014)

	Retail	Food and beverages	Automobile	Oil and gas	Telecoms	Household goods	Chemicals	Construction	Industrial goods	Healthcare	Technology	Country Average
Russia	19	44	56	50	30	59	20	80	52	87	56	47
Netherlands	8	46		59	33	50	58	46	51	59	63	47
Germany	35	49	40	54	68	47	48	45	54	58	61	53
United States	19	28	45	49	33	39	45	50	52	50	59	55
United Kingdom	31	48	70	62	51	41	60	55	61	68	73	56
Belgium	41	52		46	67	45	48	65	70	73	88	62
Saudi Arabia	32	54		53	97	125	88	53	78	123	60	64
Brazil	53	50	61	44	72	108	57	62	72	62	104	66
Spain	28	93	37	44	41	36	79	87	73	73	115	69
Poland	41	54	46	26	82	47	46	75	71	66	76	70
China	20	37	106	96	47	66	72	91	106	89	99	74
India	58	45	58	66	43	69	70	76	89	80	124	77
France	28	63	53	69	33	72	79	66	82	72	92	77
Turkey	23	64	58	45	90	96	87	105	93	81	108	80
Italy	60	71	56	84	118	78	148	102	95	86	149	99
Sector Average	34	54	58	59	61	67	69	72	75	77	91	

Sources: Bloomberg, Euler Hermes

Note: Listed companies only, in 15 countries and 11 sectors.
Greener values indicate shorter DSO, redder values indicate longer DSO.

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