Press release

Euler Hermes: Global sector risk downgrades point to trouble ahead

- Analyzes 18 sectors in 72 countries (~1300 industries): 1 in 4 industries in sensitive or high-risk territory in 2016
- Metals and machinery & equipment sectors experienced notable worsening of payments in 2015. Pharmaceuticals and IT services fared better.
- Latin America, GCC countries and Russia faced the strongest 2015 deterioration in their sector risk profiles. Europe the only region with a slight improvement.
- 5 must-haves for businesses: Resilience to prolonged low commodity prices; Precision in targeting markets amid China, Brazil and Russia turmoil; Strength to face increasing debt and credit risk; Speed to tackle disruption; Agility to cope with the upcoming M&A wave and fiercer price pressures.

PARIS – 2 MARCH 2016 – 2016 is set to be a tough year for corporates as companies face a series of short- and long-term challenges, as analyzed by Euler Hermes, the worldwide leader in trade credit insurance. A new report, titled *Let the Sector Games Begin - Companies are having an early start at their own Olympics*, offers insights into the daily life of companies worldwide who did not wait for the Rio Olympics to be put to the test. The report analyzed sector risk changes for 18 economic sectors in 72 countries (~1,300 industries).

“Management teams will need to keep a cool head in the coming months, after the adrenaline rush caused by volatile financial markets,” said Ludovic Subran, chief economist at Euler Hermes. “In 2015, 148 industries were downgraded in our analysis, and only 76 were upgraded. As a result, 2016 starts with 1 in 4 industries in sensitive or high-risk territory.”

Chart 1: Sector risk grades at end-2015 (y-axis) & changes over one year (x-axis)

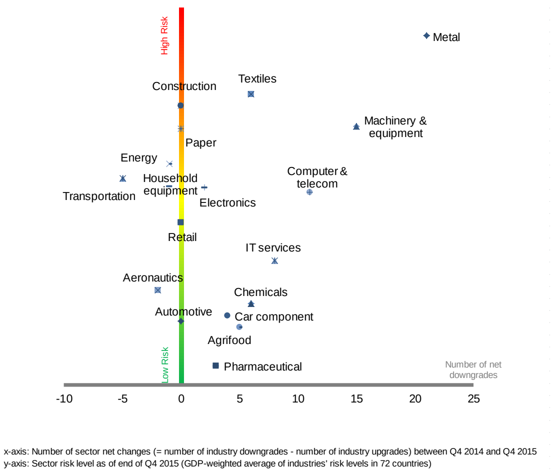
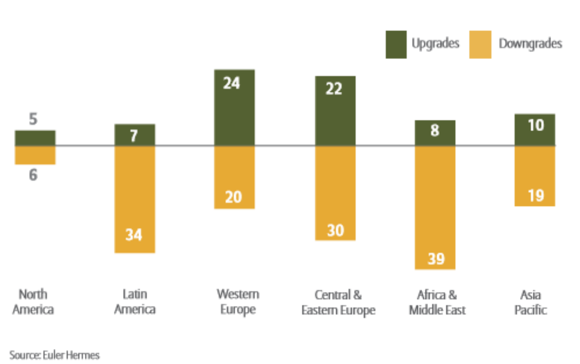


Chart 2: Number of sector risk changes by region



Euler Hermes identified five macro challenges for corporates in 2016, using its sector risk approach:

1. **Protracted period of low commodity prices**
   Euler Hermes forecasts subdued oil prices will prompt an estimated 25 per cent fall in oil-related investment activity, which will weigh heavily on the machinery & equipment sector. In contrast, transportation is the big winner due to low oil prices - with 8 upgrades in 2015, especially in Europe. Other commodities such as iron ore are predicted to face a further price decrease. This will continue to impact the metal sector, for which most countries (61 of 72 monitored) already have a sensitive or high risk rating by Euler Hermes underwriters.

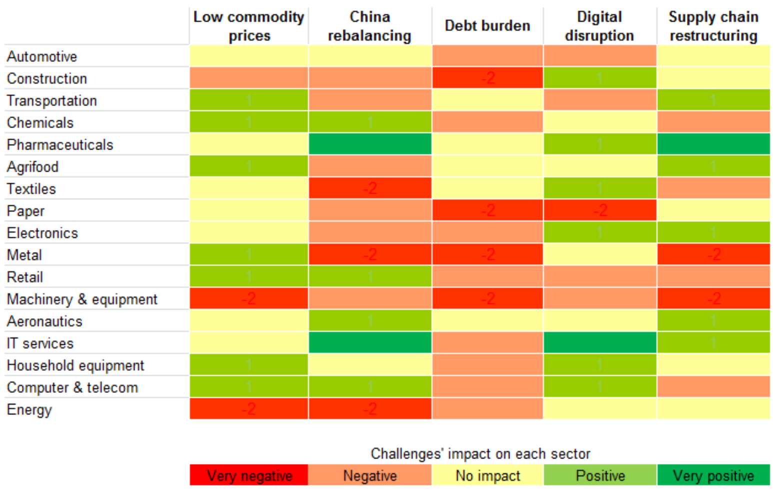
2. **Turmoil in emerging markets**
Emerging markets witnessed an unprecedented number of sector risk downgrades (122) in 2015, vs a limited number of upgrades. Africa and the Middle East, and Latin America experienced 39 and 34 sector downgrades, respectively. Brazil is in the eye of the storm with 15 out of 18 industries facing a sensitive or high risk of non-payment. In contrast, Western Europe helped balance the global risk profile with 24 sector upgrades.

3. **Increasing debt, payment terms and credit risk**
Day sales outstanding (DSO), a key indicator of cash flow as well as insolvencies, are increasing worldwide. In China, DSO rose to 81 days in 2015 and is forecast to hit 84 days in 2016; insolvencies are expected to increase by +20% in 2016. Alarms are sounding for debt levels, even adjusted for cash. Indeed, net gearing ratios are as high as 108% for metal, and 92% for both machinery & equipment and paper.

4. **More disruption**
While the investment cycle has remained subdued amid global volatility and economic uncertainty, disruption entails further risk for traditional industries. Retail is one striking example, with the rise of e-commerce and mobile technology already representing USD 3.5tn. Distance to the consumer, divestment from R&D and dependence on infrastructure are the three determinants for growing risk of disruption when comparing industries worldwide.

5. **Another M&A wave**
Increasingly, corporates are exploring acquisition options as organic growth opportunities diminish. Euler Hermes expects global M&A to exceed again USD 4tn this year, with deal volumes rising 10% to 20,000 transactions. These figures are driven by buoyant activity in the chemicals, pharmaceuticals and technologies sectors. Cross-border deals driven by Asian corporates targeting European firms were particularly dynamic in 2015 -- a +17% increase.

Chart 3: Sector sensitivity to top 5 economic challenges in 2016
Source: Euler Hermes



“In some sectors – such as energy, machinery & equipment and metals - companies are caught between short-term challenges including low commodity prices, erratic emerging market demand and debt overhang, as well as rapid disruption and unwanted consolidation over the medium term,” concluded Subran.

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