Press release

EULER HERMES
Our knowledge serving your success

Euler Hermes Survey 2015
Corporate investment and cash reserves in France

- Three out of four companies have less than six months order book visibility
- Nine out of ten companies will improve or stabilize their cash situations
- One out of three companies intends to increase investment spending in 2015

PARIS – 9 JUNE 2015 – Drawing on its 23 regional offices throughout France, Euler Hermes, the worldwide leader in trade credit insurance, has surveyed the investment plans, cash positions and order books of more than 800 small and medium sized enterprises (SMEs) and mid-tier companies in France. This is the third edition of this survey, which provides exclusive insight into the present situation of businesses in France and their concerns with regard to demand and investment.

1- The rebound in household consumption and improved profit margins is expected to give corporate investment renewed momentum but the investment gap is still at a worrying level of €83 billion.

French economic growth is expected to accelerate to 1.2% in 2015 and rise to 1.5% in 2016, after growth of just 0.2% in 2014. A rebound in household consumption will be the main growth driver, contributing one percentage point of GDP growth this year. The additional demand should at last boost companies' sales growth, with manufacturing sales forecast to grow by 2.5% this year.

Businesses are taking advantage of the present situation to rebuild their margins. Taking into account the fall in oil prices (0.4 point of margin), the CICE tax credit (0.5 point) and the rebound in activity, the margin of non-financial companies is expected to reach 31.5% in 2015. Although this is lower than the peak of 33.5% reached in 2007, company margins could return to their long-term average of 32.7% by 2017.

Despite a slight year-on-year increase in insolvencies at the end of April (0.5%), some sectors such as the retail sector posted an improvement, with insolvencies down by 5.4%. Euler Hermes estimates that the number of business insolvencies will continue to decline in 2015 (-1%) and 2016 (-3%), although still at a very slow pace (-0.4% in 2014). However, this trend cannot mask the record level of turbulence in France, with a rate of more than 60,000 insolvencies out to the end of 2016.

"After the worryingly sluggish trend in corporate investment in the second half of 2014 (0% growth), we expect growth to reach 1% this year and accelerate to 2.6% in 2016," says Ludovic Subran, chief economist, Euler Hermes. "In a positive financing environment, this growth in sales and margins should trigger investment. This is something that has been long awaited as the investment gap is set to swell to €83 billion this year[1]."

2- Euler Hermes' survey reveals that weak demand continues to be the main issue for two out of every three business but their financial fundamentals have improved.

Stiffer competition (33% of businesses surveyed) and lack of outlets (33%) are the main difficulties facing French businesses in 2015, ahead of profit margins (23%). The competition issue is felt more severely in the services sector where 44% of businesses surveyed ranked it as the main difficulty. Lack of markets was felt most severely in the construction sector where 39% of businesses ranked it as the greatest obstacle.

In 2015, 46% of the businesses surveyed identified pricing pressures as the main risk to their margins, i.e. twice as many as in the previous investment survey carried out in 2013, followed by weak activity which was seen as the main risk by 23% of the businesses surveyed.

[1] The investment gap is calculated as the difference between total corporate investment in the economy in 2015 and the amount calculated based on an assumption of 1% growth in investment per quarter, in line with the trend between 2000 and 2007.

Visibility has deteriorated: 76% of the businesses surveyed reported order book visibility of less than six months compared with 58% in the previous survey. For three out of four businesses, expectations of future domestic or export demand is a determining (or very important) factor in investment spending decisions, just behind return on investment (86%) and ahead of the need to renew production capacity (73%), financing conditions (47%) and government subsidies and aid (19%).

The businesses surveyed reported stronger financial fundamentals, reflecting a generally healthy cash situation: In 2015, 92% indicated that they had managed to stabilize or improve their cash position over the past year, compared with 75% in 2013. In keeping with the present low cost of bank financing, businesses did not report any particular financing problems and two out of three companies reported fairly short payment times. Euler Hermes estimates that the aggregate cash reserves of large non-financial companies will stand at around €250 billion in 2015.

3- One out of three companies plans to increase investment spending in 2015 and one out of two are planning expansionary investment

Although demand trends are still difficult to gauge, French businesses are expecting an economic recovery and this is reflected in their investment appetite.

“Eight out of ten companies will continue to invest in 2015. The mid-tier companies are the most dynamic with 93% planning to invest compared with 75% for SMEs. All in all, 31% of companies plan to increase their investment spending compared with 2014,” explains Frédéric Andrès, economist for France at Euler Hermes. “This is a better score than in 2013 when only 20% planned to increase investment spending.”

However, companies continue to be reticent with regard to investments in exports: 90% say they will not increase their export investments this year. The additional €20 billion that could be captured by French export companies in 2015, including €9 billion due to the weaker euro, is apparently not sufficient to trigger a movement of investment and conquest of these markets over the medium term.

In 2013, corporate investment favored a defensive approach with 60% focused on renewing and upgrading production facilities. In 2015, one out of two companies will look for productive or expansionary investment opportunities (increasing production capacity, launching a new activity and R&D). The automotive and services sectors seem the most expansionary with respectively 65% and 67% of expansionary investment. Note, however, that in 2015 R&D investment will represent only 0.4% of sales.

“Many French businesses are not operating at full regime and could meet increased demand with their existing facilities before adopting a more expansionary investment strategy,” concludes Hubert Leman, member of Euler Hermes France’s Executive Committee and Head of Risk. “Three out of four companies report capacity utilization rates of below 80%. The situation has worsened since the previous survey, highlighting the slump in demand and pointing to a real overcapacity issue.”

# # #

Contacts:

Euler Hermes France
Sophie Marot-Rémy +33 (0)1 84 11 54 31
sophie.marot@eulerhermes.com

Publicis Consultants
Romain Sulpice +33 (0)1 44 82 46 21
romain.sulpice@mslfrance.com

Euler Hermes Group
Rémi Calvet +33 (0)1 84 11 61 41
remi.calvet@eulerhermes.com

Euler Hermes France
As the market leader for credit insurance in France, Euler Hermes France, a subsidiary of Euler Hermes Group, contributes to the profitable growth of companies by insuring their receivables. Its mission is to mitigate customer risk in France and abroad, collect late payments and indemnify losses incurred.

Euler Hermes is the global leader in trade credit insurance and a recognized specialist in the areas of bonding, guarantees and collections. With more than 100 years of experience, the company offers business-to-business (B2B) clients financial services to support cash and trade receivables management. Its proprietary intelligence network tracks and analyzes daily changes in corporate solvency among small, medium and multinational companies active in markets representing 92% of global GDP. Headquartered in Paris, the company is present in over 50 countries with 6,000+ employees. Euler Hermes is a subsidiary of Allianz, listed on Euronext Paris (ELE.PA) and rated AA- by Standard & Poor's and Dagong Europe. The company posted a consolidated turnover of €2.5 billion in 2014 and insured global business transactions for €860 billion in exposure at the end of 2014. Further information: www.eulerhermes.com, LinkedIn or Twitter @eulerhermes.