Press Release

Euler Hermes Economic Outlook: “High Stakes Game”

As global cash piles hit new records, late payments and major insolvencies increase

- Cumulative turnover of major insolvencies up +34% to 19.1bn EUR, as number of insolvent large companies more than doubles in Q1 2017
- Top 20 largest insolvencies account for 70% of global total, at 13.4bn EUR of cumulative turnover
- Cash hoarding hit a new record with 7 trillion USD held on the balance sheets of non-financial companies at the end of 2016
- Since the 2008 financial crisis, the world’s cash pile has doubled to almost 10% of global GDP
- U.S. companies hold 30% of the global cash pile; Chinese firms doubled cash piles since 2010.

PARIS – 6 JULY 2017 – Despite a new record being set for non-financial company cash hoarding, continued high payment delays and a sharp rise in major insolvencies (companies with > 50mn EUR turnover) demonstrate that global economic momentum is not without its challenges, according Euler Hermes, the world’s leading trade credit insurer.

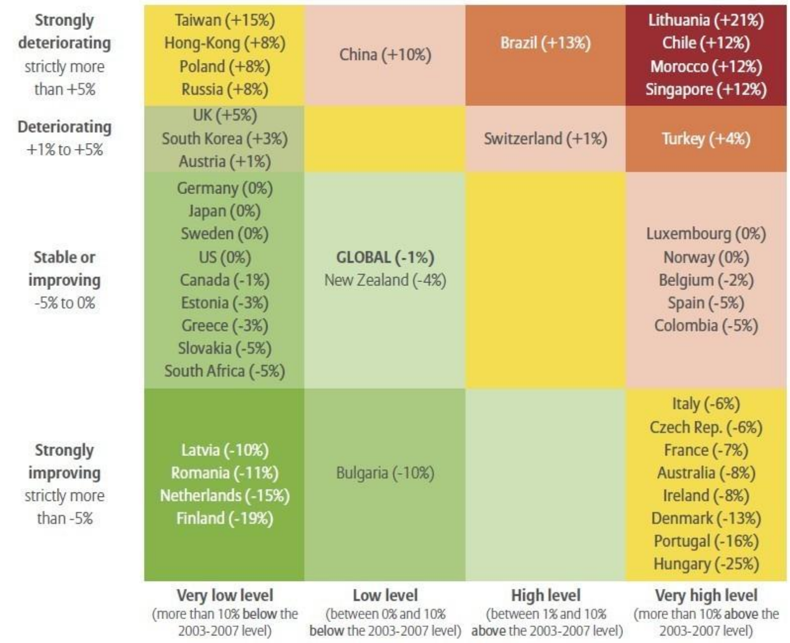
In its latest Economic Outlook report, titled [“High Stakes Games”](), the company’s economic research department:

- measured cash accumulation across 30,500 listed companies in 94 stock markets;
- analyzed insolvency levels in 43 markets;
- explored payment behavior from a Bloomberg panel of 27,000 listed companies worldwide.

“Against the backdrop of overall global stability and with economic recovery finally beginning to gather steam, lurks a high degree of divergence and risk,” said Ludovic Subran, chief economist at Euler Hermes. “This becomes increasingly extreme as concentration of cash in some regions and industries sets new records, and the severity and frequency of major company failure rises.

“From major insolvencies in the retail and services sectors, particularly in the U.S., increasing bankruptcies in China and Brazil through to extended payment delays in China and the Aeronautics sector worldwide -- this adds up to bigger tail risks. The severity and frequency of extreme cases is on the rise and will need to be carefully monitored in the months ahead,” added Subran.

Chart 1 - Euler Hermes Global Insolvency Heat Map 2017



Drawing on national statistics and Euler Hermes forecasts across 43 markets, the research reveals:

A balanced global outlook

- Overall insolvency levels are expected to decline by -1% in 2017 and rise +1% in 2018.

Uneven regional trends

- A persistent and broad-based rise in insolvencies in **Latin America** (+8% in 2017 and +11% in 2018) **Africa** (+10% and +6%) and **Asia Pacific** (+3% in both years)
- A plateau in **North America** in 2017 (0%) before pick-up in 2018 (+5%) after 7 years of steady fall
- Slowed pace of insolvency decline in **Western Europe**: -5% in 2017 and -2% in 2018 from -7% in 2016. In **Central and Eastern Europe** (+1%, -6%) problems in Russia, Poland and Turkey will offset smaller country improvements in 2017

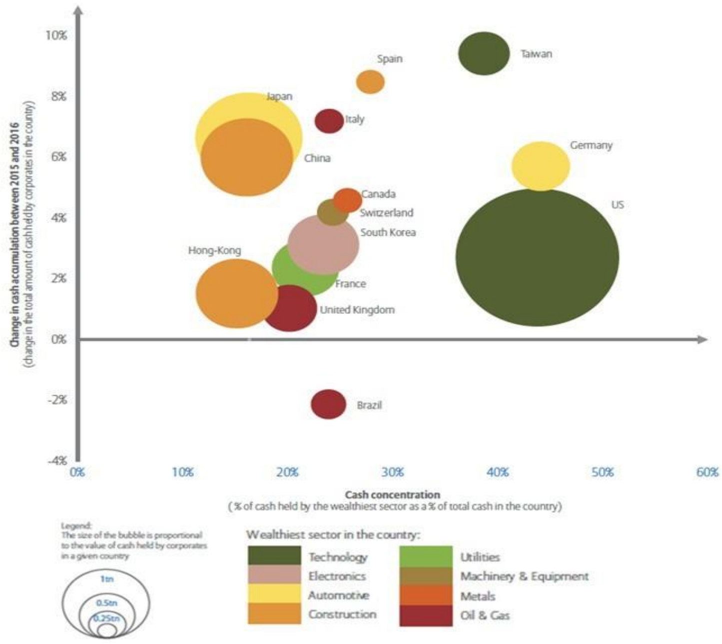
While Euler Hermes forecasts that overall worldwide insolvencies will decline by -1% this year before increasing by +1% in 2018, 20 countries (Chart 1) are expected to have more insolvencies in 2017 than the 2008 pre-crisis average. After three years of significant declines in insolvencies (-13.6% in 2014, -8.4% in 2015 and -4% in 2016), the global picture is being driven by uneven regional trends.

Also masked in the global figures is the sharp increase in major insolvencies in Q1 2017. Some 74 companies with a turnover of >50mn EUR became insolvent in the first three months of the year – 30 more than in Q1 2016. The cumulative turnover of these insolvent companies totaled EUR19.1bn, up +34%. The top 20 largest insolvencies accounted for 70% of the global total, at 13.4bn EUR of cumulative turnover. While eight of these occurred in the U.S., Europe saw the largest increase in the number of major insolvencies. More than 1 in 3 (25 of 74) of the world's major insolvencies in Q1 were in Europe.

Under pressure from rapid digital disruption and continuing the trend of the past four quarters, the services and retail sectors recorded the highest number of major insolvencies in Q1 2017: 17 (up from 10 in Q1 2016) and 14 (up from 5) respectively. The cumulative turnover of failed companies in these sectors in the first quarter was 6.2bn EUR (+579%) and 5.2bn EUR (+477%) respectively. Pharmaceuticals and computer/telecom sectors remained sound, with no failures in Q1 2017 and just one major failure over the last four quarters.

Euler Hermes warns that companies should beware of the domino effect of these major insolvencies, as the overall severity of failures is worsening. This could have serious knock-on effects on providers along the supply chain. For example, retail bankruptcies in the U.S. and UK could impact electronics, manufacturing and textiles worldwide.

Chart 2 - The Top Cash Rich Countries



Cash Accumulation

Cash hoarding reached a new record last year with non-financial companies holding 7 trillion USD in cash and cash equivalents on their balance sheets at the end of 2016. An increase of +2.9% compared to 2015 and +34% on 2010, the world's cash pile has doubled (from 3.5tn USD) since the 2008 financial crisis. It now accounts for 9.5% of global GDP, compared to 6.1% in 2007.

While US non-financial companies hold 30% of the global total on the back of ongoing fiscal optimization, Chinese companies have doubled their cash piles since 2010. In regional terms, the cash hoard held by Asian Pacific companies is now the world's largest. Accumulation remains limited and uneven in Western Europe.

The technology industry remains the strongest cash machine, outpacing the oil & gas and automotive sectors. This is particularly true in the U.S. where its technology sector accounts for 71% of the industry's global cash pile (Chart 2). Indeed, out of a total of 2.1tn held by U.S. businesses, 916bn USD (44%) is held by the sector, notably the top 5 tech giants of Apple, Microsoft, Alphabet, Cisco and Oracle. Collectively, they had amassed 565mn USD of cash by the end of 2016 – more than the combined cash pile of German and British non-financial companies. In sharp contrast, two sectors faced a strong decline in 2016: machinery & equipment (- USD278bn) and household equipment (- USD104bn). Euler Hermes believes these developments warrant close monitoring.

While global economic growth supports cash generation, ongoing uncertainties and risks have and will continue to prompt saving behaviors. The recovery in global investment and M&A activity, however, should soften the pace of cash accumulation. Other developments could also have an impact. For example, the U.S. government's tax repatriation plan could prove significant if companies are incentivized to bring large amounts of cash back to America. While de-offshorization might lead to investment in job creation and research and development in the US, yield-starved businesses could opt to continue hoarding.

Days Sales Outstanding

In an environment of major insolvencies and cash stock-piling it is perhaps inevitable that company payment behavior continues to be tense. On average, companies around the globe had to wait 64 days to be paid in 2016, while 1 in 4 were paid after 88 days (2 days faster than in 2015). An unfortunate 9% of companies worldwide had to wait more than 120 days on average for payment last year. Euler Hermes expects global Days Sales Outstanding (DSO) to level off at a worldwide average of 64 days in 2017.

While New Zealand, Austria, Netherlands, Denmark, the U.S., Switzerland and Australia led the way with the shortest DSOs (42, 44, 46, 48, 49, 49 and 50 days respectively), at the opposite end of the scale the slowest payers were Turkey, Italy, Greece and China (80, 85, 88 and 89 days respectively). Euler Hermes believes that the situation in China in particular should be monitored, as its DSO of 89 days in 2016 has climbed to a nine-year high. In Western Europe the average waiting period has picked up, albeit slowly (+1 day to 61 days). The DSO level has improved in Mediterranean countries where it has typically been above the regional average. Thus, the gap between worst and best performers appears to be shrinking.

Globally, upstream industrial sectors such as chemicals, construction, information and communication technology, and machinery face DSO levels above the global average. The metal sector, however, recorded a DSO level of 56 days. Companies operating in sectors with retail outlets such as food, household goods or transportation are typically paid faster than the worldwide average of 64 days. The aeronautic sector's frenetic level of activity has pushed up DSO and working capital requirements (WCR) since 2012 (by +8 and +16 days respectively).

Russian Roulette

"Not all companies have an ace up their sleeve, so they will have to hedge their bets to make the best of the renewed economic momentum, especially in Europe. While they put their cards on the table, company leaders will have to keep a poker face. Nobody wants to find out they are playing Russian roulette," summed up Subran.

# # #

Media contacts:

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

Euler Hermes Group
Barry Gardner +33 (0) 6 63 60 43 14
barry.gardner@eulerhermes.com