

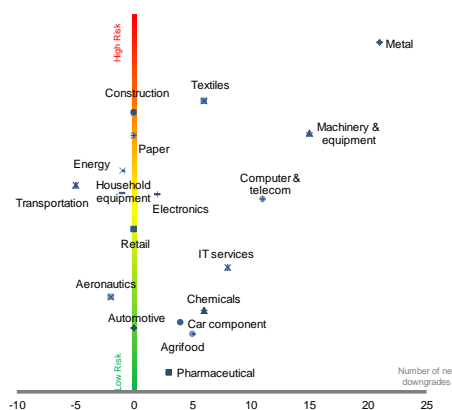
## Euler Hermes: Global sector risk downgrades point to trouble ahead

- 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).

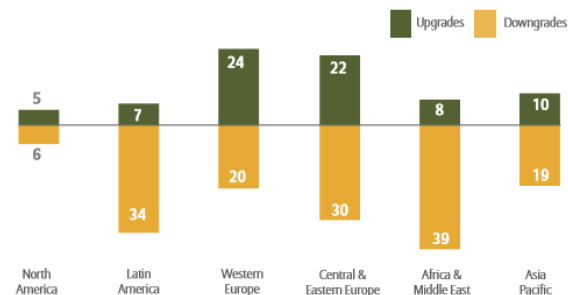
“Management teams will need to keep a cool head in the coming months, after the adrenaline rush caused by volatile financial markets,” said Ludovic Subran, chief economist at Euler Hermes. “In 2015, 148 industries were downgraded in our analysis, and only 76 were upgraded. As a result, 2016 starts with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



x-axis: Number of sector net changes (= number of industry downgrades - number of industry upgrades) between Q4 2014 and Q4 2015  
y-axis: Sector risk level as of end of Q4 2015 (GDP-weighted average of industries' risk levels in 72 countries)

Chart 2: Number of sector risk changes by region



Source: Euler Hermes

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.

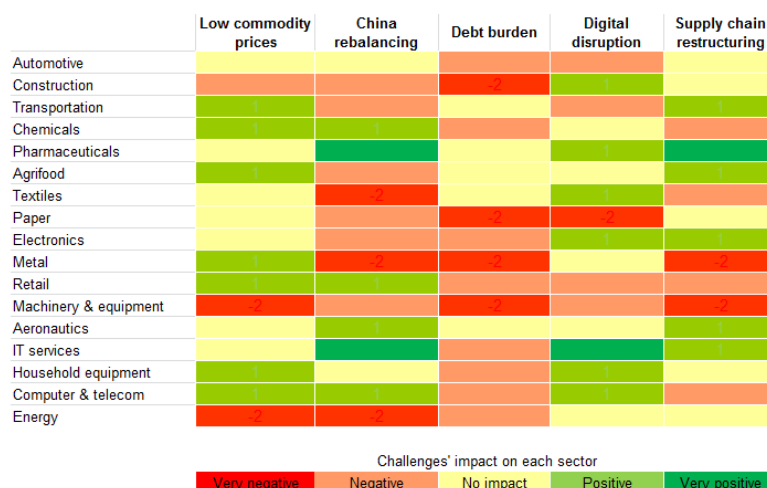
**4. More disruption**

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.

## Media Contacts

### Euler Hermes Group Media Relations

Remi Calvet +33 (0)1 84 11 61 41

[remi.calvet@eulerhermes.com](mailto:remi.calvet@eulerhermes.com)

### Publicis Consultants

Romain Sulpice +33 (0)1 44 82 46 21

[romain.sulpice@mslfrance.com](mailto:romain.sulpice@mslfrance.com)

**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 €2.6 billion in 2015 and insured global business transactions for €890 billion in exposure at the end of 2015. Further information: [www.eulerhermes.com](http://www.eulerhermes.com), [LinkedIn](#) or Twitter [@eulerhermes](#).

**Cautionary note regarding forward-looking statements:** The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Euler Hermes Group's core business and core markets, (ii) performance of financial markets, including emerging markets, and including market volatility, liquidity and credit events (iii) the frequency and severity of insured loss events, including from natural catastrophes and including the development of loss expenses, (iv) persistency levels, (v) the extent of credit defaults, (vi) interest rate levels, (vii) currency exchange rates including the Euro/U.S. Dollar exchange rate, (viii) changing levels of competition, (ix) changes in laws and regulations, including monetary convergence and the European Monetary Union, (x) changes in the policies of central banks and/or foreign governments, (xi) the impact of acquisitions, including related integration issues, (xii) reorganization measures, and (xiii) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The company assumes no obligation to update any forward-looking statement.