Press release

EULER HERMES
Our knowledge serving your success

German transportation sector: Oil prices support road transporters in the near term – rising insolvencies in 2016

- Lower oil prices are offsetting cost increases due to the minimum wage in 2015, but road transporters' profit margins will fall in 2016
- Euler Hermes forecast: slight decrease in insolvencies in 2015; increase expected in 2016; the number of insolvencies in the sector remains disproportionately high relative to its GDP contribution
- Cost increases mainly affect small and very small companies, which make up the vast majority of the industry in a highly fragmented road transportation market
- Two-class society: smaller road transporters fight for survival with 1% margins, while larger logistics providers that add more value achieve up to 6% margins

HAMBURG – 8 JUNE 2015 – Despite the adverse effect of the minimum wage, the current low oil prices have provided the German transportation industry with a brief respite and lifted profit margins by a slight 0.1 percentage points to an average of 2%. This finding is part of a study by the world's leading credit insurance company, Euler Hermes.

With crude oil prices again on the rise, higher personnel costs for German truckers will erode profit margins in 2016, which will then fall back to 1.8%. Euler Hermes is therefore already projecting a slight increase in the number of insolvencies to 1,740 in 2016 (compared with 1,690 this year). Relative to its 5% contribution to GDP, the German transportation industry accounts for a disproportionately high number of insolvencies. According to Euler Hermes, the sector could account for 7.2% of all insolvencies in Germany in 2015 and 7.5% in 2016.

Dark clouds on the horizon – cost increase hits small companies particularly hard

"The impact of lower oil prices and a higher minimum wage currently offset one another, but that will end in 2016," said Ludovic Subran, chief economist at Euler Hermes. "The average oil price in the coming year could increase from USD 63 per barrel to USD 75. That will affect small and very small companies particularly hard. Some 99% of all German transportation companies are small and medium-sized businesses, and nearly 70% have fewer than nine employees. That means that competition will increase again significantly, since they have no market pricing power or ability to pass on higher costs. Some of these companies will not survive, especially since the small companies are often thinly capitalized."

Outsourcing by the large trucking companies squeezes margins, with increasing competition from Poland

The large trucking companies are taking advantage of this highly fragmented market. Of the several thousand trucks in their service, the large trucking companies typically own only 20 or 30 themselves and purchase the transportation service from low-cost subcontractors.

The growing competition from Eastern European road transporters puts additional pressure on small companies. Thanks to cabotage, i.e. providing transportation services within the European Union (EU), Poland in particular has won substantial market share in recent years. Last year, German truckers were still the EU market leaders, with 305,744 Mt/km. But in contrast to Polish road transporters (ranked second in Europe with 247,595 Mt/km), they are losing market share and are increasingly confined to their domestic market. The domestic market currently accounts for 84% of German logistics providers' road transportation revenues. Between 2010 and 2013, the contribution from international markets fell by 19 percentage points.

Two-class society: smaller road transporters are in some cases fighting for survival, while the large ones achieve 6% margins

"Lately we are seeing a two-class society in the road transportation sector. On one side are many small companies, which in some cases barely achieve a 1% profit margin and are therefore frequently fighting for survival, and on the other are the logistics providers, which achieve comfortable profit margins of up to 6%," says Dirk Hagemann, Head of Risk Underwriting at Euler Hermes Germany. "Their recipe for success is greater value added beyond the mere freight hauling service as well as larger networks.

Flexibility is also a key factor, in order to adjust capacity to the volatile market at all times, for example through leasing agreements. Many providers can offer the service, since the barriers to entry are low. With more sophisticated services and value added, German road transporters can not only compete against Eastern European companies but also maintain their profit margins and market share."

The complete study (English) on German road transportation is available at:
http://www.eulerhermes.com/mediacenter/Lists/mediacenter-documents/industry-report-german-transportation-april2015.pdf

# # #

Media contacts:

Euler Hermes Deutschland AG, (Hamburg)
Antje Stephan **-** +49 (0)40 8834-1033
antje.stephan@eulerhermes.com

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

Publicis Consultants
Romain Sulpice +33 (0)1 44 82 46 21
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 €2.5 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.

The 1,500 employees of Euler Hermes Germany are based at its headquarters in Hamburg and in other offices. More information: www.eulerhermes.de