Press Release

EULER HERMES – CORPORATE DEBT HOTSPOTS BUBBLING UNDER A CALM SURFACE

- *Global net gearing ratio for non-financial listed businesses fell to 53% in 2017, as earnings growth strengthened balance sheets.*
- *Positive global trend masks increased risks due to over-leverage in key sectors and countries.*
- *Paper, transportation and textile indebtedness increasing due to structural sector change.*
- *Average net gearing ratio highest in Portugal (96%), Turkey (72%), Spain (68%) and Greece (69%).*

Paris – 02 August 2018 – A positive global trend to strengthen corporate balance sheets and reduce gearing is masking a rise in leverage in vulnerable sectors and regions and this in turn is creating hotspots of increased risk for cross border trade, according to the world's leading trade credit insurer Euler Hermes.

The findings come as Euler Hermes publishes its latest research on global corporate debt, which examines the net gearing ratio (or 'leverage') of non-financial, listed companies*. The research covers only those businesses with net debt on their balance sheet and excludes those with net cash, giving a precise view of change amongst indebted companies.

Despite a general rise in global debt, the average net gearing ratio for businesses fell to 53% in 2017, down 3.2pp year-on-year. The trade credit insurer says the positive picture has been supported by strengthening balance sheet structures, which in turn are supported by sustained earnings growth.

Maxime Lemerle, Head of Sector Research, Euler Hermes, said: "An abundant lake of liquidity is supporting high levels of corporate debt globally. But, thanks to strong earnings growth, net indebtedness has been largely kept in check. However, diving under this calm surface reveals some bubbling hotspots of potential risks both for companies and their suppliers in number of sectors and regions."

The research highlights areas of significant risk and divergence from the global average of 53%. Euler Hermes found that risk is concentrated in sectors that face structural change, notably disruption from climate change, digitalization, changing customer needs or challenging economic performance. The sectors most at risk include paper, transportation and textile, and businesses are increasing leverage to see themselves through challenging conditions and respond to these changes.

From a regional perspective, the research found that Southern Europe was particularly vulnerable to over-leveraged corporates. Portugal (96%), Turkey (72%), Spain (68%) and Greece (69%) all recorded the highest net gearing ratios. This is compared to the lowest average levels found in South Africa (38%), Australia (41%), Hong Kong (42%), Poland (43%) and the UK (43%).

Catharina Hillenbrand-Saponar, Sector Advisor, Euler Hermes, added: "When pressures mount companies can allow leverage to creep up to help manage the problems. If this can't be matched by earnings growth it may make them more vulnerable to the very issues they are trying to contain or other, unexpected shocks."

High risk sectors

Paper
The paper industry is a highly capital-intensive industry and requires considerable leverage. As it tackles structural challenges of digitalization, the issue is compounded and has led to the sector recording the highest average net gearing ratio, at 172% for the top 25% (top quartile) comprising the highest leveraged constituents. According to the research, net gearing reduced by 7.6pp for 2017 against 2016 levels.

While leverage is high and energy input price pressures remain, margins should still improve by 20 bps in 2018 as demographics and consumption patterns boost growth in tissue and packaging production."

Transportation
The transport industry is exposed to considerable structural change and has little financial cushioning to weather the risk. With 144% average net gearing for the top 25% of companies, leverage is high, while cashflow is weak. The industry is facing the challenges of rising oil prices, a need to invest in new technology and fleets to drive fuel economy and meet climate change regulations.

Textile
Textile is a high-risk sector with a combination of significant leverage, 144% in the highest quartile of indebted companies and weak cash generation. Intense competition is the mainstay of structural headwinds, notably for industries in US, Japan, Singapore and India.

Medium risk with great improvement

Energy
Commodity prices have greatly improved earnings and financial structures in the energy sector, even though the outlook for the sector remains challenging. The main risk factors relate to economic and financing conditions. Despite promising market dynamics, the average net gearing ratio is 137% for the top 25%.

Metals
Metals remain a riskier sector with an average 119% gearing ratio for the top 25%. The favorable commodities environment prevails overall, driving earnings and cashflow growth, supported a 4pp net reduction in global net gearing year-on-year. That said, some metal categories affected by protectionism tariffs will be at risk and could see rising net gearing ratios.

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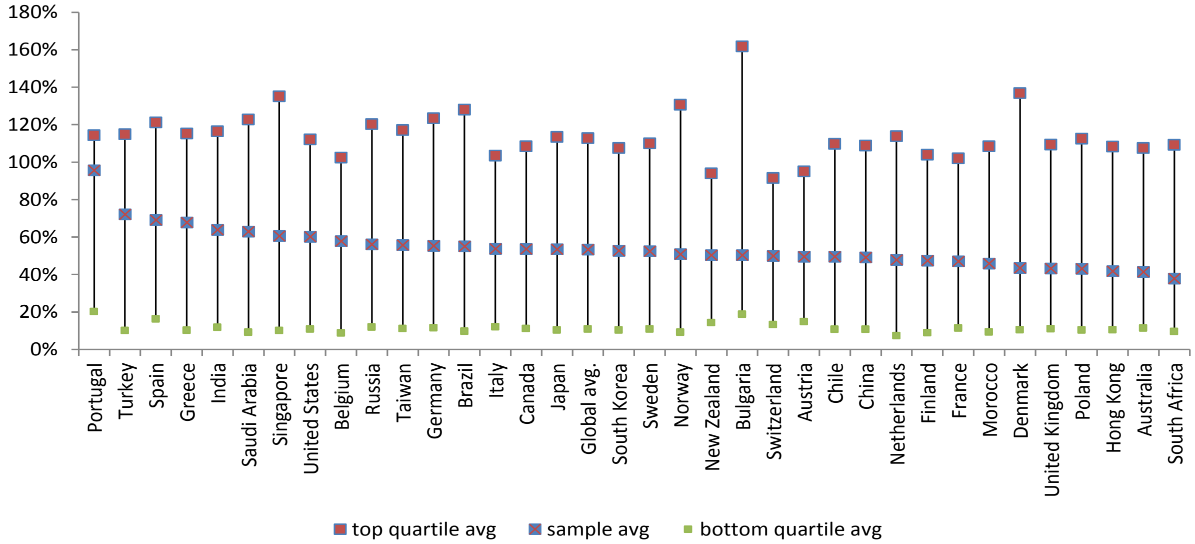
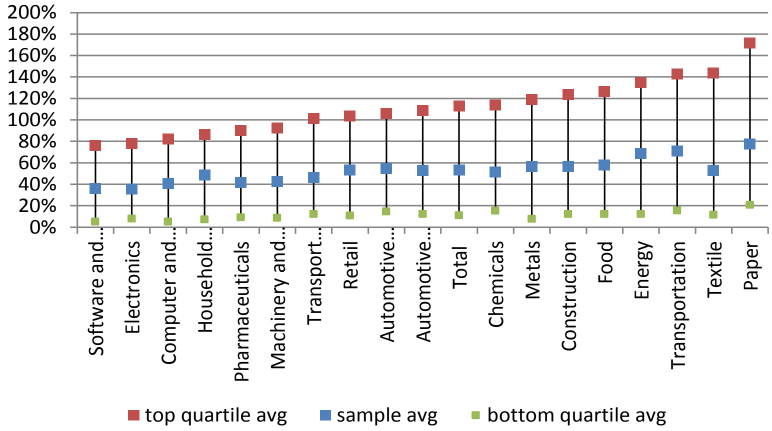
Notes to editors:

Net gearing by countries



Net gearing by sectors



** Euler Hermes uses 'leverage' and 'net gearing' interchangeably in line with the view that leverage represents the amount of debt per unit of equity for any given financial structure. Its net gearing ratio is calculated as (long term interest bearing financial liabilities + short term interest bearing financial liabilities) / (total equity). The calculations do not include any other interest-bearing liabilities, such as certain types of provisions, and are computed on book value. Top (resp. bottom) quartile average corresponds to the average of net gearing for the 25% of companies in the panel with the highest (resp. lowest) net gearing; Only listed non-financial businesses were analyzed.*

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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 52 countries with 6,050 employees. Euler Hermes is a subsidiary of Allianz, rated AA by Standard & Poor's. The company posted a consolidated turnover of €2.6 billion in 2017 and insured global business transactions for €894 billion in exposure at the end of 2017.

Further information: www.eulerhermes.com, LinkedIn or Twitter @eulerhermes.