Atradius
Managing risk, enabling trade

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# market monitor

## Focus on ICT performance and outlook

## Disclaimer

# In this issue...



On the following pages we indicate the general outlook for each sector featured using these symbols:

Excellent | Good | Fair | Poor | Bleak

# Major shifts on the horizon

The global ICT market continues to expand, with sales of information technology and telecommunications products and services expected to increase 2.5% in 2017 after growing 2.1% to more than EUR 3 trillion in 2016, according to the European IT Observatory (EITO).

That said, in many developed countries the "traditional" ICT sector is no longer growing at a rate that cushions businesses against the impact of rising costs and falling prices, with the result that many companies do not receive the returns they need from their working capital. Currently, the main triggers for defaults and insolvencies of ICT businesses are increased price pressure and margin erosion due to heightened competition and lack of product differentiation. Another reason is a shrinking market due to lower consumer demand for tablets and the on-going weakness in the traditional PC market. While in most markets the insolvency rate of ICT is still below the average of other main industries, ICT businesses are facing more challenges, as advancing technologies and changing market conditions are driving major shifts in the sector landscape.

With the advent of technologies such as cloud, mobility and Internet of Things, most ICT distributors increasingly need to clearly delineate their value to resellers and vendors, and the choice they face in order to survive is either getting big or going niche. The new evolving technologies are expected to drive dramatic shifts on the back of sustained and continuing margin pressure, rising debtors' days, tight cash flows and fierce competition. This will increase the probability of failure for ICT businesses that are not able to adapt accordingly. It is expected that ICT providers with a leveraged financial structure become more vulnerable in times of increased economic volatility. Businesses that rely heavily on bank facilities and credit from suppliers for their working capital requirements are getting more exposed to adverse financial conditions and reduction or cancellation of credit facilities.

# China

- Domestic sales growth is decreasing
- Growing challenges for manufacturers and retailers
- More insolvencies expected in some segments

**Overview**

| Credit risk assessment | significantly improving | improving | stable | deteriorating | significantly deteriorating |
|---|---|---|---|---|---|
| Trend in non-payments over the last 6 months | | | | ✔ | |
| Development of non-payments over the coming 6 months | | | ✔ | | |
| Trend in insolvencies over the last 6 months | | | ✔ | | |
| Development of insolvencies over the coming 6 months | | | | ✔ | |

| Financing conditions | very high | high | average | low | very low |
|---|---|---|---|---|---|
| Dependence on bank finance | | | ✔ | | |
| Overall indebtedness of the sector | | | ✔ | | |
| Willingness of banks to provide credit to this sector | | | ✔ | | |

| Business conditions | significantly improving | improving | stable | deteriorating | significantly deteriorating |
|---|---|---|---|---|---|
| Profit margins: general trend over the last 12 months | | | | ✔ | |
| General demand situation (sales) | | | ✔ | | |

Source: Atradius

China is both the world's largest importer and exporter of electronic/ICT products. The abundance of low-skilled labour and manufacturing incentives has led to its heavy reliance on high-tech imports, which are then assembled, incorporated into end-products and finally exported. In absolute size, China accounts for more than 30% of global consumer elec¬tronics exports, while consumer electronics as a percentage of national exports account for nearly 25%.

According to the European IT observatory EITO, ICT sales growth in China has slowed down from 7.3% year-on-year in 2015 to 3.0% in 2016. In 2017 a 2.4% growth rate is forecast. This slowdown is due to China´s decreasing economic growth rates and increased economic uncertainty, higher market penetration and price competition. Decreasing sales in the PC and tablet market and the slowdown in the smartphone segment were compensated by technological innovations such as cloud computing, big data, and the Internet of Things. The continuing expansion of those emerging technologies should drive market expansion in the medium-term, together with income growth, enterprise modernisation and government support for the IT industry.

Despite on-going growth of the Chinese ICT market, challenges are increasing. For ICT manufacturers, competition is getting fiercer, as a large number of mainland Chinese enterprises have entered the component manufacturing industry in the past decade, causing price wars. At the same time, this segment is largely exposed to metal and oil price fluctuations. Another issue is increasing labour costs, as there have been regular and significant increases in the minimum wage payable in various provinces of China. Therefore, many ICT manufacturing facilities in China are facing difficulties when recruiting employees.

In the ICT distribution/retail segment, requests to prolong payment terms and overdue payments have increased since the end of 2015. For traditional sales channels competition from the

**China: ICT sector**

| | 2016 | 2017f | 2018f |
|---|---|---|---|
| GDP growth (%) | 6.7 | 6.2 | 6.2 |
| Sector value added growth (%) | 16.9 | 11.1 | 10.5 |

| | |
|---|---|
| Sector share in the national economy (%) | 0.1 |
| Average sector growth over the past 3 years (%) | 6.1 |
| Average sector growth over the past 5 years (%) | 6.8 |
| Degree of export orientation | average |
| Degree of competition | high |

Sources: IHS, Atradius

growing online sales segment is increasing, as online sellers can offer competitive prices and convenient in home shopping, and brick-and-mortar businesses suffer from costs for logistics and warehousing. Another issue is higher moral hazard during a market downturn as some players may bet on one-off deals to make big money and disappear from the sector afterwards.

Retailers focused on selling foreign ICT brands are facing increasing downward pressure, given the Chinese government's preference for local brands due to the national information security strategy (i.e. they may face barriers from some government-sponsored projects).

For the time being, our underwriting stance remains generally open for large ICT manufacturers and national/regional distributors, while we are more cautious with system integrators and online sellers, where competition is fierce and the financial situation of businesses is often weaker. Caution is also advised for private ICT distributors with one or two brands only, as the ICT market is a fast changing one, and such companies are exposed to elevated risks due to highly concentrated product portfolios. In all those segments we expect business insolvencies to increase in 2017.

Transparency issues remain one of the main challenges in the Chinese ICT sector, as ownership of businesses and group structure are not always evident and there are often different sets of financials. Cross guarantees are widely used in bank lending to ICT traders, meaning that one company's liquidity collapse could drag down others. At the same time, governmental actions (e.g. anti-corruption campaigns) can further complicate risk assessments.

**Chinese ICT sector**

| | |
|---|---|
| Strengths | Low cost of manufacturing; global centre for original equipment manufacturers |
| | Huge domestic market that is expanding as the country develops |
| | Government support for IT sector development and booming foreign investment |
| Weaknesses | Erosion of China's cost advantages in some areas, with significant production volumes relocating elsewhere |
| | Pool of first-time buyers diminishing |
| | High levels of piracy, cyber security issues, fierce competition and regulatory uncertainty |

Source: Atradius

# India

- Still highest growth rates in international comparison
- High share in India´s service exports
- Many challenges for smaller businesses

## Overview

| Credit risk assessment | significantly improving | improving | stable | deteriorating | significantly deteriorating |
|---|---|---|---|---|---|
| Trend in non-payments over the last 6 months | | | ✔ | | |
| Development of non-payments over the coming 6 months | | | ✔ | | |
| Trend in insolvencies over the last 6 months | | | ✔ | | |
| Development of insolvencies over the coming 6 months | | | ✔ | | |
| **Financing conditions** | **very high** | **high** | **average** | **low** | **very low** |
| Dependence on bank finance | | ✔ | | | |
| Overall indebtedness of the sector | | ✔ | | | |
| Willingness of banks to provide credit to this sector | | | ✔ | | |
| **Business conditions** | **significantly improving** | **improving** | **stable** | **deteriorating** | **significantly deteriorating** |
| Profit margins: general trend over the last 12 months | | | ✔ | | |
| General demand situation (sales) | | | ✔ | | |

Source: Atradius

The IT and IT Enabled Services (ITES) industries have been one of the key driving forces fuelling India's economic growth, contributing more than 9% to India's GDP in 2016. Overall, the industry employs nearly 3.7 million people across 16,000 firms, and the IT share in the country's total service exports amounts to more than 45%.

According to the European IT observatory EITO, ICT sales growth in India has slowed down, from a whopping 11.9% year-on-year in 2015 to 4.7% in 2016. In 2017 a 5.2% increase is forecast. In an international comparison of ICT markets, India continues to lead in terms of growth rates.

The IT industry in India was estimated to amount to USD 160 billion in 2016. The IT services segment has a 47% share, followed by business process management (BPM) with an 18% share, engineering, research and development (ER&D) and packaged software (16%) and hardware (8%). The e-commerce market was estimated at USD 17 billion in 2016, a 21% year-on-year increase. The Indian ICT hardware market amounted to USD 18.25 billion in the financial year 2015-2016 , mainly due to increased sales of phablets, smartphones, notebooks and printers. Key growth drivers are improving economic indicators, growing disposable income, penetration into rural markets, tier 2 and tier 3 cities, online and digital marketing, the e-commerce boom and the government's reform initiative for the sector. By 2020, India's IT-BPM sector´s total revenue is projected to reach USD 200-225 billion and USD 350-400 billion in 2025.

However, despite the robust growth rates, stiff competition, pricing pressure and cheap imports remain key challenges in the domestic ICT market, especially for smaller IT resellers and distributors. Those are mostly partnership/proprietorship companies, working on very low margins and often with liquidity and solvency issues. In the IT distributor segment non-payment notifications and credit insurance claims increased in 2016.

### India: ICT sector

| | 2016 | 2017f | 2018f |
|---|---|---|---|
| GDP growth (%) | 7.0 | 7.6 | 7.6 |
| Sector value added growth (%) | 10.7 | 11.7 | 11.7 |

| | |
|---|---|
| Sector share in the national economy (%) | 1.0 |
| Average sector growth over the past 3 years (%) | 12.1 |
| Average sector growth over the past 5 years (%) | 11.6 |
| Degree of export orientation | average |
| Degree of competition | very high |

Sources: IHS, Atradius

Our underwriting stance is generally open for larger IT distributors and software/hardware service companies as well as IT service companies that are either publicly listed or privately owned by strong established groups. However, we are more prudent with the IT distributor segment and smaller partnership/proprietorship firms that are not obliged to file their annual accounts with the Registrar of Companies (ROC), and which are usually unwilling to share that information with third party information agencies.

In our underwriting process we take into account the trading history, customer profile and credit management capabilities of single buyers.

### Indian ICT sector

| | |
|---|---|
| Strengths | Large domestic market that is expanding as the country develops |
| | Booming e-commerce segment |
| Weaknesses | Fierce competition and slim margins |
| | Many IT businesses are highly indebted and dependent on bank finance |

Source: Atradius

# United Kingdom

- **Growth expected to slow down in 2017**
- **Uncertainty looms over the post-Brexit ICT market**
- **On average, payments take around 60 days**

## Overview

| **Credit risk assessment** | significantly improving | improving | stable | deteriorating | significantly deteriorating |
|---|---|---|---|---|---|
| Trend in non-payments over the last 6 months | | | ✔ | | |
| Development of non-payments over the coming 6 months | | | ✔ | | |
| Trend in insolvencies over the last 6 months | | | ✔ | | |
| Development of insolvencies over the coming 6 months | | | ✔ | | |
| **Financing conditions** | very high | high | average | low | very low |
| Dependence on bank finance | | | | ✔ | |
| Overall indebtedness of the sector | | | | ✔ | |
| Willingness of banks to provide credit to this sector | | | ✔ | | |
| **Business conditions** | significantly improving | improving | stable | deteriorating | significantly deteriorating |
| Profit margins: general trend over the last 12 months | | | | ✔ | |
| General demand situation (sales) | | | | ✔ | |

Source: Atradius

In 2016 the British ICT market continued to perform well, with a value added growth rate of 4.5%. As in 2015 demand for hardware products continues to decline, while software and data services remained the main drivers of growth, together with cloud computing and the Internet of Things. Data centres, cloud computing and the continued development of mobile apps and new technology (e.g. wearable technology) are the areas that are anticipated to drive the sector forward in the coming years.

However, ICT growth is expected to slow down to 2.6% in 2017, as more uncertainty looms over the British ICT market after the Brexit decision. Given the increased economic uncertainty household consumption growth is slowing down, and more business investments are being revised or postponed. Currently many companies are less willing to commit to long- term IT projects and are holding off non-essential upgrades.

After many years of relatively stable exchange rates, currency volatility, (i.e. a depreciation of the pound) following the June 2016 Brexit referendum, has become an issue for the industry, as many ICT companies are importing/purchasing in EUR/USD and selling in GBP. Following the Brexit decision, major hardware vendors have raised their prices by up to 10%, in response to the pound depreciation against the US dollar and higher import costs. A few buyers have confirmed that the supply chain is using this as a reason to increase prices.

On average, payments in the British ICT sector take around 60 days. Payment experience is good, and the level of protracted payments is low. The number of non-payment cases has not increased in the last twelve months, and this positive trend is expected to continue. The level of ICT insolvencies is average, and no substantial increase is expected in 2017. However, competition

**United Kingdom: ICT sector**

| | 2016 | 2017f | 2018f |
|---|---|---|---|
| GDP growth (%) | 1.8 | 1.7 | 1.3 |
| Sector value added growth (%) | 4.5 | 2.6 | 2.8 |

| | |
|---|---|
| Sector share in the national economy (%) | 3.2 |
| Average sector growth over the past 3 years (%) | 3.6 |
| Average sector growth over the past 5 years (%) | 3.0 |
| Degree of export orientation | low |
| Degree of competition | high |

Sources: IHS, Atradius

continues to be fierce and businesses' margins remain under pressure, with minimal barriers to entry. ICT businesses not only compete on price but also on their product offering, as they try to differentiate their offering in order to preserve (already thin) margins.

For the time being, our underwriting stance for the British ICT sector remains open. That said, given the current exchange rate issues we focus our discussions with buyers around foreign exchange hedging mechanisms/techniques adopted to ensure they are sufficiently covered as many companies have not faced this risk over the past couple of years.

We are also closely monitoring suppliers to the financial services sector, as this industry will potentially be more impacted by the Brexit decision than others, as the potential for financial institutions to relocate to mainland Europe would result in less demand for IT. The EU makets represent an important resource for business growth, recruitment and single market operations of the British ICT industry. Once the UK leaves the EU, there will potentially be added costs and implications for UK resellers.

**British ICT sector**

| | |
|---|---|
| Strengths | Technology developments maintain high demand from most industry sectors |
| | Investment in data centres / cloud computing continues to gather pace |
| | Generally attractive for investors |
| Weaknesses | Increased economic uncertainty due to Brexit decision |
| | High level of competition and low margins |
| | Hardware sales continue to decline |

Source: Atradius

# United States

- High growth continues in the emerging technology segments
- Impact of new US economic policy remains to be seen
- A modest increase in insolvencies expected in 2017

**Overview**

| Credit risk assessment | significantly improving | improving | stable | deteriorating | significantly deteriorating |
|---|---|---|---|---|---|
| Trend in non-payments over the last 6 months | | | | ✔ | |
| Development of non-payments over the coming 6 months | | | | ✔ | |
| Trend in insolvencies over the last 6 months | | | ✔ | | |
| Development of insolvencies over the coming 6 months | | | | ✔ | |
| **Financing conditions** | **very high** | **high** | **average** | **low** | **very low** |
| Dependence on bank finance | | ✔ | | | |
| Overall indebtedness of the sector | | ✔ | | | |
| Willingness of banks to provide credit to this sector | | ✔ | | | |
| **Business conditions** | **significantly improving** | **improving** | **stable** | **deteriorating** | **significantly deteriorating** |
| Profit margins: general trend over the last 12 months | | | ✔ | | |
| General demand situation (sales) | | | ✔ | | |

Source: Atradius

In 2016 the US ICT market benefitted from stable economic growth and robust private consumption, which was helped by wage growth, employment gains and decreased energy prices. According to the European IT observatory EITO, ICT sales growth in the United States increased 3.2% year-on-year in 2016, with IT sales growing 4.3% and business with software services rising 9.0%.

In 2017 the US ICT market is forecast to grow further, by 3%-4%. Smartphone revenues are expected to reach USD 55.6 billion in 2017, up 2% year-on-year, with more budget models to hit shelves in 2017. That said, sales of tablets, one of the best performing products over the past few years, are expected to decrease 8% this year, to USD 16 billion, as adoption rates level off and replacement cycles slow down. Likewise, laptop and desktop revenues are expected to decrease 3% and 8%, to USD 15.6 billion and USD 3.9 billion respectively. As in 2016 the main growth driver will be emerging technologies with connectivity, including digital assistants and 3D printing, augmented/virtual reality, autonomous vehicles and medical and sports technologies. These are expected to to show double-digit growth rates.

Despite the mainly robust growth rates in many ICT segments, high competition is still leading to low pricing strategies and margin compression for distributors and retailers alike. Margins of manufacturers are impacted by the already high market penetration of mature product categories and the subsequent need for innovation. Many ICT businesses continue to rely heavily on bank facilities and external financing, resulting in leveraged balance sheets. ICT insolvencies are expected to remain stable or even to increase slightly in 2017, given high competition, many start-ups and short product cycles.

Payment terms in the ICT sector commonly range between 30 and 90 days, but in some cases can take even 120 days. When payment delays occur, they generally relate to disputes over

**USA: ICT sector**

| | 2016 | 2017f | 2018f |
|---|---|---|---|
| GDP growth (%) | 1.6 | 2.2 | 2.4 |
| Sector value added growth (%) | 4.0 | 3.5 | 3.3 |

| | |
|---|---|
| Sector share in the national economy (%) | 3.2 |
| Average sector growth over the past 3 years (%) | 4.3 |
| Average sector growth over the past 5 years (%) | 5.0 |
| Degree of export orientation | average |
| Degree of competition | high |

Sources: IHS, Atradius

product pricing or other issues, as opposed to liquidity concerns. Manufacturers often offer price protection or discounts on products in order to move inventory ahead of the rapid innovation of technology experienced in the market. This can lead to disputes and ultimately an increase in non-payments until the issues can be resolved.

It remains to be seen to what extent the Trump administration´s policies will impact the US market for information and communication technology. The announced tax cuts and stimulus measures could lead to increased household purchasing power and a further decrease in unemployment, boosting additional consumer spending for ICT. However, a massive restriction of the H1-B immigration visa programme for high-skilled immigrant workers could affect recruitment policies. At the same time, higher tariffs on electronic imports from Asia could hurt producers and increase sales prices, while US ICT exporters could be affected by an increase in global protectionism (especially those selling to Latin America).

Until there is more clarity about the implications of potential changes in US trade and economic policies our underlying underwriting strategy remains cautiously open, with a focus on favourable subsectors such as smartphones, tablets and health technology products along with other emerging technologies, while steering clear of unfavourable or declining subsectors like PCs. We employ a more cautious approach in certain niche segments or markets (such as consumer electronics exporters selling to South America due to the on-going economic difficulties in some countries).

When analysing buyers, the level of transparency in their products and their life cycles – including any insight into buyback arrangements for old or obsolete products – is key. With short life cycles and technology quickly becoming obsolete, it is important for us to know which end markets and subsectors are being served.

**US ICT sector**

| | |
|---|---|
| Strengths | Semiconductor manufacturers are able to offset declines in one end product segment with gains in another |
| | Wide consumer acceptance of new devices, particularly in terms of mobility |
| | Trend toward cloud-based applications and computing benefits software companies |
| Weaknesses | Demand for desktop PCs remains weak |
| | Fierce competition leading to pricing pressure and low margins |
| | Short product life cycles and capital intensive industry |

Source: Atradius

# Market performance snapshots

## France

- **Further growth, but pressure on margins remains**
- **Wholesalers increasingly tap into the IT services segment**
- **Low insolvency level, but sudden business failures may occur**

The value of the French ICT market amounted to about EUR 67 billion in 2016, with the share of the IT services segment (technology consulting, software and services) amounting to about 78% and the share of the hardware segment to 22%.

The French smartphones market decreased in 2016 for the first time, with a 6% drop in volume due to a high equipment rate and lower renewals. However, the market grew 5% in value, driven by sales of top-range products with bigger screens. Sales of computers (-4% in volume) and tablets (-21% in volume) continued to decrease due to market saturation, competition from smartphones and hybrid products and a low renewal rate for tablets.

In 2017 the French IT services sector is expected to grow 3% after increasing 2.9% in 2016. IT services will remain the main driver of ICT market growth due to the development of IT externalisation and cloud compu¬ting, driving up demand for servers and IT consulting. SMACs (Social, Mobile and Analytics in the Cloud) and SaaS (Software as a Service) technologies are expected to record further high sales increases in 2017.

However, 2017 is expected to remain challenging for the hardware segment, given the highly competitive environment, price pressure and the on-going consolidation process in the market. Many smaller players face difficulties due to the potentially one-sided concentration of their customer (or supplier) portfolio and limited value added. IT hardware wholesalers increasingly try to move away from pure hardware selling, to offer more added value products and IT services in order to improve their profitability, as this offers higher revenues and better margins.

Despite overall growth, many French ICT wholesalers suffer from structurally low margins, with equity ratios often not exceeding 15%. That said small- and mid-cap players are rather resilient if they benefit from flexible cost structures, while large listed IT service groups benefit from a strong domestic market position.

We expect payment delays and insolvencies to remain low and generally stable in the coming months, and our underwriting position in the ICT segment remains generally open to neutral. Sudden business failures cannot be ruled out due to the challenging market conditions, and we have to take into account that the risks, especially for smaller ICT businesses, are still high: with limited equity bases they will struggle to absorb any further decline in margins in a market that is highly competitive and which requires ICT wholesalers to provide additional services.

# Italy

- The rebound is expected to continue
- Payments take between 60 and 90 days on average
- Low level of payment delays and insolvencies

The ICT sector has a 1.6% share in the Italian economy, with approximately 75,000 companies and 460,000 employees. According to the industry association Assinform, the Italian ICT market grew 1.8% to EUR 66.1 billion in 2016, and in 2017 another 2.3% increase is expected.

In the business-to-business segment, it is mainly larger companies that are investing in IT (especially in the financial services sector, followed by manufacturing and telecommunications), accounting for more than 60% of total domestic IT expenses. However, demand from the public sector still remains modest, and the IT spending capacity of SMEs remains subdued, a consequence of still restricted access to bank loans for smaller businesses and a lack of resources.

In the consumer segment, e-commerce, which is still at an early stage in Italy compared to other European countries, is recording increasing ICT sales, while sales in the brick-and-mortar shops tend to be declining. The on-going economic uncertainty still limits higher ICT spending by Italian consumers.

In most ICT segments margins improved in 2015 and remained stable in 2016. Due to limited organic growth opportunities and the on-going economic uncertainty, market players strive to expand through acquisitions and specialisation (customised and value added services). Payments in the ICT sector generally take between 60 and 90 days, payment experience has been good so far and the level of notified non-payments is low. The amount of ICT business failures is rather low compared to other Italian industries, and expected to remain stable in the coming months.

Our underwriting approach remains generally open for ICT, especially for providers of value added IT services with growing market opportunities (network infrastructures, cloud computing).

However, low value added wholesalers and smaller players have to be monitored more closely, as they are more exposed to financial distress related to working capital requirements, especially when depending on large clients and the public sector. We also maintain a more cautious approach on wholesalers with low value added services and poor critical mass and any businesses which are higly dependent on sales and services to the public sector (due to common late payments by public bodies).

# Market performance at a glance

## Germany

- According to the German Federal Association for Information Technology, Telecommunications and New Media (BITKOM), overall consumer electronics/ICT sales increased 1.0% in 2016, to EUR 159.3 billion. This trend is expected to continue in 2017, with a 1.3% growth rate forecast.
- While turnover in the consumer electronics and telecommunications segments is expected to decrease further after declining in 2016, IT sales (IT hardware, software and services) are forecast to increase 2.7%. Within this segment, software sales (up 6.3%) are expected to be the main driver of growth as in previous years.
- Despite continued sales growth, most businesses operate on very tight margins due to fierce competition in all subsectors. This, together with sharp price erosion, lead to an on-going trend of consolidation. Unless they are well-established in niche products, smaller companies are – and will continue to be – the losers in this cut-throat environment.
- On average, payments in the ICT industry take between 30 and 60 days. Due to the more difficult market conditions, (e.g. price wars) payment delays and insolvencies are expected to increase slightly in 2017 (in 2016 ICT business failures decreased 6%).
- In general, our underwriting approach for the ICT industry is neutral. As ICT is a very fast and innovative industry with sharp price erosion and high competition, we require comprehensive information (e.g. interim figures, cash budgets, overview of bank lines etc.) on each company we underwrite.
- Several ICT businesses like IT-distributors of tablets and mobile phones have been involved (sometimes inadvertently) in missing trader intra-community (MTIC) fraud cases (i.e. the exploitation of the VAT rules which state that cross-border transactions between EU member states are zero-rated for VAT purposes). We are particularly cautious about this, as even innocent businesses caught up in a so-called “VAT carousel” can be left bearing significant tax liabilities, leading to liquidity issues, “freezing” of accounts by tax authorities as well as the negative effect of losing sales to customers that are cautious of buying from prosecuted suppliers.

## Japan

- The Japanese ICT industry is well established and holds a global reputation for excellence and innovation. Japan is the second largest ICT market in the Asia-Pacific region after China, with well-known companies such as Hitachi, Sony, Panasonic and Toshiba having a large market share.
- The Japanese ICT sector recorded value added growth of 1.5% in 2016, and is expected to increase 1.3% in 2017. Last year the domestic consumer electronics market benefitted from the yen appreciation, high household income levels as well as strong demand for the latest devices. However, given the slower yen appreciation expected in 2017 spending growth is expected to slow down to 0.6%, with total spending amounting to USD 57.6 billion. Between 2016 and 2020 the consumer electronics market is expected to contract at a compound annual growth rate (CAGR) of 0.5% due to the high market saturation (high penetration of devices across all segments) and the unfavourable demographic development.
- Japanese ICT companies obtain finance easily as banks are very willing to lend and interest rates are low. The current government is very supportive of bank lending, putting pressure on banks to even lend to weaker companies. Therefore, high gearing ratios are common in Japan.
- On average, payments in the ICT industry take between 30 and 90 days. The business culture in Japan promotes prompt payment, and therefore the number of protracted payments is low. The insolvency level in the ICT sector is low and is expected to remain stable in 2017.
- Our underwriting stance for this industry is generally open due to stable growth and margin outlook, the low insolvency level and good payment experience and the fact that the market is dominated by large corporates and well-established domestic businesses.

## South Korea

- Like the overall economy South Korea's ICT sector, is very export driven. After a subdued performance in 2016, South Korean ICT exports increased the fifth month in a row in March 2017, thanks to higher global demand for semiconductors and displays. That said, domestic demand for ICT products has remained flat so far.
- The sector is dominated by a number of large business groups like Samsung, Hyundai and CJ Group. Despite the concentration of bigger players, the sector is very mature and still considered highly competitive. Despite some downward pressure profitability of the sector is expected to remain generally stable in 2017.
- While gearing and dependence on bank loans are high in this sector, financial institutions are in general supportive of most businesses. Corporate borrowing rates are rather low, and companies have diversified borrowing funding sources (e.g. banks, bond market etc.).
- On average, payments in the ICT industry take between 60 and 120 days. Payment behaviour has been good over the past two years, and the number of payment delays and insolvencies is low.
- Our underwriting stance continues to be open for ICT businesses supported by the availability of financial and business information and a good track record. The outlook for sector performance in 2017 is positive due to recovering exports, higher spending by the public sector and rebounding consumer confidence. However,any protectionist measures imposed by US government on Korean imports can be a downside risk.

## United Arab Emirates

- The ICT value chain in the UAE encompasses vendors, distributors, power retailers, resellers and other small retailers, while manufacturing is not present. Most of the vendors and distributors are present in Dubai's free trade zones, and redistribute to the wider Middle East.
- Since the end of 2015 low oil prices have put downward pressure on the economy and discretionary spending, including the ICT segment. The value of the ICT market is estimated at USD 4.5 billion in 2017 and has been flat since 2015.
- As in 2016, the UAE's ICT market remains characterised by high competition, single-digit margins, low entry barriers and stagnating growth in subsegments like PCs and desktops. The imposition of a customs duty on certain consumer durables and IT products in India has negatively impacted the overall demand of ICT products.
- Payment delays and protracted defaults have sharply increased since 2015, as have run-away cases due to cash problems in this industry. One of the main reasons for the increased default rate remains the lack of support from banks in the form of reduced or cautious lending. The payment delays and insolvency outlook remains subdued in 2017.
- Our underwriting stance continues to be very selective and we are especially cautious when it comes to distributors and resellers exporting to high political risk countries in the Middle East and Africa.

# Industries performance forecast per country

June 2017

| | Agriculture | Automotive/ Transport | Chemicals/ Pharma | Construction Const.Mtrls | Consumer Durables | Electronics/ ICT | Financial Services |
|---|---|---|---|---|---|---|---|
| Austria | ⛅ | 🌧 | ☀ | ☁ | ⛅ | ☁ | ⛅ |
| Belgium | ☁ | ⛅ | ☀ | 🌧 | ☁ | ⛅ | ☁ |
| Czech Rep. | ⛅ | ☀ | ⛅ | 🌧 | ☁ | ☁ | ⛅ |
| Denmark | ⛈ | ☁ | ⛅ | ☁ | 🌧 | ☁ | ☁ |
| France | 🌧 | ☁ | ☀ | 🌧 | ☁ | ☁ | ⛅ |
| Germany | ☁ | ☁ | ☀ | ⛅ | ☁ | ☁ | ⛅ |
| Hungary | ☁ | ☁ | ⛅ | ☁ | ☁ | ☁ | ☁ |
| Ireland | ☁ | ☁ | ⛅ | ☁ | ☁ | ☁ | ☁ |
| Italy | ☁ | ⛅ | ⛅ | ⛈ | ⛅ | ⛅ | ⛅ |
| The Netherlands | ⛅ | ☁ | ☀ | ☁ | ☁ | ☁ | ⛅ |
| Poland | ☁ | 🌧 | ☁ | 🌧 | ☁ | 🌧 | ⛅ |
| Portugal | ☁ | ⛅ | 🌧 | 🌧 | 🌧 | 🌧 | 🌧 |
| Russia | ☁ | ☁ | ☁ | 🌧 | ☁ | 🌧 | ☁ |
| Slovakia | ☁ | ⛅ | ⛅ | ⛈ | ☁ | ☁ | ⛅ |
| Spain | ☁ | ⛅ | ⛅ | 🌧 | ☁ | ☁ | ☁ |
| Sweden | ⛅ | ☁ | ⛅ | ☁ | ⛅ | ⛅ | ⛅ |
| Switzerland | ⛅ | ☁ | ⛅ | ☁ | ⛅ | ☁ | ☀ |
| Turkey | ⛅ | ⛅ | ☁ | 🌧 | ☁ | 🌧 | ⛅ |
| UK | ⛅ | ☁ | ⛅ | 🌧 | ☁ | ☁ | ☁ |
| Brazil | ☁ | 🌧 | ☁ | 🌧 | ⛈ | ⛈ | ⛅ |
| Canada | ☀ | ☁ | ☁ | ☁ | ☁ | ☁ | ☀ |
| Mexico | ☁ | ⛅ | ☁ | 🌧 | ☁ | ☁ | ⛅ |
| USA | ☁ | ⛅ | ⛅ | ☁ | ☁ | ⛅ | ⛅ |
| Australia | ⛅ | 🌧 | ☁ | 🌧 | ☁ | ⛅ | ⛅ |
| China | ☀ | ☁ | ☁ | 🌧 | ☁ | ☁ | ☀ |
| Hong Kong | N/A | ☁ | ☁ | ☁ | ☁ | ⛅ | ⛅ |
| India | ☁ | ☁ | ⛅ | 🌧 | ☁ | ☁ | ☁ |
| Indonesia | ☁ | 🌧 | ☁ | ⛅ | ☁ | ☁ | ☁ |
| Japan | ⛅ | ☁ | ☁ | ☁ | ☁ | ⛅ | ⛅ |
| New Zealand | ⛅ | 🌧 | ⛅ | ⛅ | 🌧 | ⛅ | ⛅ |
| Singapore | ⛅ | 🌧 | ☁ | 🌧 | ☁ | ☁ | ⛅ |
| Taiwan | N/A | 🌧 | ☁ | ☁ | ⛅ | ⛅ | ☁ |
| Thailand | ☁ | ☁ | ☁ | ☁ | 🌧 | ☁ | ☁ |
| United Arab Emirates | ⛅ | ☁ | ☁ | 🌧 | 🌧 | 🌧 | ☁ |

| Food | Machines/ Engineering | Metals | Paper | Services | Steel | Textiles |
|---|---|---|---|---|---|---|
| Good | Good | Fair | Fair | Good | Poor | Poor |
| Good | Good | Fair | Poor | Poor | Good | Poor |
| Fair | Fair | Fair | Fair | Fair | Fair | Poor |
| Good | Fair | Fair | Bleak | Fair | Poor | Poor |
| Good | Fair | Fair | Poor | Fair | Fair | Poor |
| Fair | Good | Fair | Poor | Good | Fair | Poor |
| Fair | Good | Poor | Fair | Good | Poor | Poor |
| Good | Fair | Fair | Bleak | Poor | Fair | Poor |
| Good | Good | Poor | Poor | Good | Poor | Poor |
| Excellent | Fair | Fair | Fair | Good | Fair | Poor |
| Fair | Poor | Fair | Fair | Good | Fair | Fair |
| Fair | Fair | Poor | Fair | Good | Poor | Fair |
| Fair | Poor | Fair | Fair | Poor | Fair | Fair |
| Fair | Good | Fair | Fair | Fair | Fair | Poor |
| Good | Fair | Poor | Poor | Good | Poor | Poor |
| Good | Good | Poor | Fair | Fair | Poor | Poor |
| Good | Good | Fair | Bleak | Good | Poor | Fair |
| Good | Fair | Bleak | Poor | Poor | Fair | Poor |
| Fair | Fair | Poor | Poor | Fair | Poor | Poor |
| Good | Poor | Poor | Fair | Fair | Poor | Poor |
| Good | Fair | Fair | Poor | Good | Fair | Bleak |
| Good | Fair | Poor | Good | Good | Poor | Poor |
| Good | Fair | Poor | Poor | Good | Poor | Poor |
| Good | Fair | Poor | Poor | Fair | Poor | Poor |
| Fair | Fair | Bleak | Poor | Good | Bleak | Poor |
| Excellent | Fair | Poor | Fair | Good | Poor | Fair |
| Good | Fair | Poor | Good | Good | Poor | Fair |
| Good | Fair | Poor | Fair | Fair | Poor | Fair |
| Good | Fair | Fair | Fair | Good | Fair | Poor |
| Fair | Fair | Fair | Poor | Poor | Poor | Poor |
| Good | Fair | Fair | Fair | Good | Poor | Fair |
| Excellent | Fair | Poor | Fair | Good | Poor | Fair |
| Good | Fair | Fair | Fair | Fair | Poor | Bleak |
| Poor | Fair | Poor | Fair | Good | Poor | Poor |

Excellent

Good

Fair

Poor

Bleak

# Industry performance

## Changes since April 2017

## Europe

### Russia

**Agriculture**

Up from Poor to Fair

**Automotive**

Up from Poor to Fair

Both sectors have started to recover due to the on-going modest economic rebound.

**Electronics/ICT**

Down from Fair to Poor

Payment behaviour has deteriorated in this sector due to decreasing consumer demand and industry consolidation.

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**Atradius N.V.**
David Ricardostraat 1 · 1066 JS Amsterdam
Postbus 8982 · 1006 JD Amsterdam
The Netherlands
Phone: +31 20 553 9111

info@atradius.com
www.atradius.com