



market monitor

Focus on ICT performance and outlook



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



Excellent



Good



Fair



Poor



Bleak



Growth continues, but competition remains fierce

The global ICT market continues to grow, with sales of information technology and telecommunications products and services expected to increase 2.6% in 2016, according to the European IT Observatory (EITO). In 2015 the sector grew 3.8% globally, to EUR 2.81 trillion. In 2016, innovative technologies like cloud computing are expected to record double-digit growth rates in many countries.

As in 2015 competition remains fierce in most markets, putting pressure on sales prices and margins of businesses. While many larger players can count on the economies of scale, smaller players generally face more troubles – unless they are highly innovative and/or well-established in niche products. Businesses' success largely depends on the ability to be innovative, i.e. developing new products and bringing them quickly to market.

China

- Sales still robust despite increased economic uncertainty
- Growing challenges for manufacturers and retailers
- Payment delays have increased



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 China, the ICT sales growth rate slowed down in 2015, due to increased economic uncertainty, higher market penetration and price competition. However, it still outperformed China's 2015 GDP growth rate. According to the Ministry of Industry and Information Technology (MIIT), total sales revenues of enterprises with annual revenues of more than CNY 20 million increased 10.4%, to CNY 15.5 trillion, after growing 13% in 2014. Sales of ICT manufacturers grew 7.6%, while sales of software and IT service providers increased 16.6%. The increase in domestic sales, which reached 17.3%, was the key driver of growth. On the other hand, the overseas market reported a sales decline of 0.1% in 2015.

Despite increased economic uncertainty in China, research institute BMI still expects strong growth in 2016 as the hardware market gains further momentum and forecasts a CAGR of 8.1% for the period 2016-2020. While a hard landing remains a down-

side risk, income growth, enterprise modernisation, government support for the IT industry, and particularly emerging technologies such as cloud computing and the Internet of Things should drive market expansion in the medium term.

Despite the still robust growth rate 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 manufacture 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.

**China: ICT sector**

| | 2015 | 2016f | 2017f |
|---|------|-------|-------|
| GDP growth (%) | 6.9 | 6.5 | 6.3 |
| Sector value added growth (%) | 14.6 | 12.3 | 12.4 |
| Sector share in the national economy (%) | 0.1 | | |
| Average sector growth over the past 3 years (%) | 9.7 | | |
| Average sector growth over the past 5 years (%) | 8.9 | | |
| Degree of export orientation | low | | |
| Degree of competition | high | | |

Sources: IHS, Atradius

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

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, retailers and online sellers, where competition is fierce and the financial situation of businesses is often less strong. Hardware distribution is generally a low margin sector, and therefore, businesses may invest in other fields like microcredit companies, guarantee companies, and real estate to earn quick money. This may have worked well in the past, but has become more risky now due to tight liquidity in the market and downward pressure on real estate. Cross guarantee is widely used in bank lending to ICT traders, meaning that one company's liquidity collapse could drag down others.

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

France

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



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 French ICT sector has been rebounding since the massive contraction in 2009. According to French research institute Xerfi, sales in the French IT segment (computers, tablets and smartphones) increased to 30.9 million units in 2015 (2014: 29.1 million units) and are forecast to rise to 32.4 million units (up 4.9%) in 2016. However, within this segment, sales of computers and smartphones continued to grow in 2015, while those for tablets recorded a decrease of 11.3%, mainly due to market saturation and competition from laptops and hybrid products.

The French IT services sector (technology consulting, software and services) grew 2.1% in 2015, to EUR 50.5 billion, and an increase of 2.3% is expected in 2016. It is expected that IT services will be the main driver of ICT market growth in the future due to the expansion of cloud computing, and the need for higher mobility – now a must-have for many French businesses, 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 2016.

Despite overall growth, many French ICT companies suffer from structurally low margins, with equity ratios often not exceeding 15%. French players usually post lower operating margins, as they are more dependent on the domestic market, while their international competitors have a bigger presence in more dynamic ICT growth regions. The French ICT market environment is highly competitive, while at the same time prices in IT services have remained rather stable since 2005 (as a result of fixed-price contracts).

Given the highly competitive environment, price pressure and the on-going consolidation process in the market, many smaller ICT players face difficulties due to the potentially one-sided concentration of their customer portfolio and limited value add-

France: ICT sector

| | 2015 | 2016f | 2017f |
|---|------|-------|-----------|
| GDP growth (%) | 1.2 | 1.3 | 1.5 |
| Sector value added growth (%) | 2.5 | 3.0 | 3.2 |
| Sector share in the national economy (%) | | | 2.9 |
| Average sector growth over the past 3 years (%) | | | 1.2 |
| Average sector growth over the past 5 years (%) | | | 1.5 |
| Degree of export orientation | | | low |
| Degree of competition | | | very high |

Sources: IHS, Atradius

ed. Many IT hardware wholesalers 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 lower margins and weaker structures, French ICT players are rather resilient due to flexible cost structures.

We expect payment delays to remain low and generally stable in the coming months, as the cash reserves of many ICT businesses are satisfactory. ICT insolvencies decreased 9.5% in the period January-September 2015, and the insolvency level is expected to remain low in 2016. However, sudden business failures, even of larger players, cannot be ruled out due to the challenging market conditions.

Our underwriting position in the ICT segment remains generally open. However, 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.

When underwriting the ICT sector, we take into account the turn-over breakdown between hardware and services and the type of ICT products. We also pay attention to the customer and suppliers structure and examine working capital requirements and financing.

French ICT sector



Strengths

Big data and mobility needs generate new demand

High value added services support sound EBITDA levels

Businesses have learned to manage their working capital requirements during the last economic downturn



Weaknesses

Businesses often rely on a concentrated portfolio of suppliers and customers

Market is composed of a large number of small and fragile companies

Lack of IT experts

Source: Atradius

Germany

- Fierce competition and price pressure
- On average, payments take between 30 and 60 days
- Rising insolvencies in the consumer electronics segment



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| Profit margins: general trend over the last 12 months | | | ✓ | | |
| General demand situation (sales) | | | ✓ | | |

Source: Atradius

ICT plays a pivotal role in the German economy, employing more than one million people and having generated about 130,000 new jobs over the past five years. According to the German Federal Association for Information Technology, Telecommunications and New Media (BITKOM), overall consumer electronics/ICT sales increased 2.9% in 2015, to EUR 157.6 billion. This positive trend is expected to continue in 2016, with a 1.7% growth rate forecast. While turnover in the consumer electronics and telecommunications segments is expected to increase only 2%, IT sales (IT hardware, software and services) are forecast to increase 3%. Within this segment, software sales (up 6%) are expected to be the main driver of growth.

Despite continued sales growth, businesses in the German ICT sector are exposed to some challenges: in general, businesses in all subsectors (IT, telecommunications and consumer electronics) have below-average equity strength. Profit margins are tight because of fierce competition, particularly on price. As the German ICT market is dominated by a few big groups but characterised by a high number of mid-sized companies, there is a high level of competition on all levels. The low margins, sharp price erosion and fierce competition 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.

**Germany: ICT sector**

| | 2015 | 2016f | 2017f |
|---|------|-------|-------|
| GDP growth (%) | 1.7 | 1.6 | 1.5 |
| Sector value added growth (%) | 3.4 | 3.9 | 4.0 |
| Sector share in the national economy (%) | | | 2.3 |
| Average sector growth over the past 3 years (%) | | | 2.3 |
| Average sector growth over the past 5 years (%) | | | 2.4 |
| Degree of export orientation | | | low |
| Degree of competition | | | high |

Sources: IHS, Atradius

Due to fast changing technology in this industry and low margins, the wholesale and retail of electronic appliances segment is especially susceptible to fraud.

On average, payments in the ICT industry take between 30 and 60 days. We have seen no increase in payment delays over the past couple of months, and we expect this to remain unchanged. According to BITKOM, in 2015 ICT insolvencies decreased 7.8% year-on-year after an increase of 4.7% in 2014. Insolvency levels have sharply increased in the consumer electronics segment, where competition is most fierce and price wars are permanent. In 2016, we expect ICT insolvencies to level off, in line with the overall business insolvency trend in Germany.

In general, our underwriting approach for the ICT industry remains open, as the sector is expected to continue growing in the coming years. But as ICT is a very fast and innovative industry with sharp price erosion and high competition, we require comprehensive information on each company we underwrite. If we are to cover, we need to have the most recently available insight into the company's financial and business performance. Additionally, we are more selective on ICT businesses operating for less than one year, unless they are part of a larger group or spin-off.

German ICT sector

Strengths

Fast product innovations lead to new customer demand

Additional services (complete packages) often lead to positive purchase decisions and customer retention

No dependency from certain customer sectors



Weaknesses

High innovation pressure/high investments have to be financed

The increasing interchangeability of products makes it difficult for companies to distinguish themselves from competitors

High competition and high pressure on prices lead to low margins

Source: Atradius

United States

- Growth continues in most segments
- High competition is still putting prices under pressure
- No further decrease in insolvencies expected in 2016



Overview

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| 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 US ICT market is expected to benefit further from stable economic growth and robust private consumption, which is helped by wage growth, employment gains and decreased energy prices. According to the Consumer Technology Association (CTA), the US consumer technology industry's retail revenues will increase to USD 287 billion in 2016. Innovations such as wearables (e.g. health and fitness devices along with smart watches), 3D printing, virtual reality and drones are expected to be the main drivers of growth and to show double-digit growth rates.

Smartphones remain the secondary revenue driver in the segment, but revenue growth has slowed as product categories have matured. According to CTA, smartphone revenues are expected to reach USD 183 billion in 2016, up 4% year-on-year. That said, sales of tablets are expected to decrease 12% this year, to USD 18 billion.

With new vehicle sales expected to grow in 2016, manufacturers of automotive electronics and audio systems are likely to benefit from higher utilisation of 4G technologies. It is expected that by 2020, 75% of all cars will be connected to the Internet.

As in 2015, the outlook for the telecom and semiconductor segments remains positive. Investments in infrastructure remain strong within the telecom sector as wireless providers look to expand network capabilities and improve service offerings. Given the role of semiconductors within mobile devices and consumer electronics, this is likely to remain an important economic driver for the foreseeable future.

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

**USA: ICT sector**

| | 2015 | 2016f | 2017f |
|---|---------|-------|-------|
| GDP growth (%) | 2.4 | 2.0 | 2.4 |
| Sector value added growth (%) | 4.7 | 3.9 | 4.2 |
| Sector share in the national economy (%) | 3.1 | | |
| Average sector growth over the past 3 years (%) | 4.8 | | |
| Average sector growth over the past 5 years (%) | 5.8 | | |
| Degree of export orientation | average | | |
| Degree of competition | high | | |

Sources: IHS, Atradius

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.

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 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 is expected that the payment trend for 2016 will be on par with that of 2015 with little change in the overall payment behaviour. ICT insolvencies are expected to remain stable or even to increase slightly by up to 2% in 2016 (in line with the overall US business trend), given high competition, many start-ups and short product cycles.

As in 2015, 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. Given the economic downturn in Brazil and currency volatility in Latin America, some exporters have been impacted by cash flow issues in this region, and are therefore more closely reviewed.

Product life cycles still remain short and therefore a company's long-term sustainability is driven by innovation and its ability to develop new products and bring them quickly to the market. Therefore, 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

Italy

- The modest rebound is expected to continue
- SME investments into IT still low
- Payments take between 60 and 90 days on average



The ICT sector accounts for 1.6% of the Italian economy, with approximately 75,000 companies and 460,000 employees. In 2013 and 2014, ICT sales contracted as the Italian economy was in recession and public as well as private spending decreased. In line with the modest GDP rebound in 2015 (up 0.8%), the Italian ICT market grew 1.0% to EUR 64.9 billion in 2015, according to the industry association Assinform. All subsectors contributed positively, with the exception of the telecommunications network services, which decreased 2.4% due to a decline in prices. Voice data centres and cloud computing (up 28.7% to EUR 1.2 billion) and the Internet of Things (up 13.9% to EUR 1.8 billion) recorded the highest growth rates. In 2016, ICT sales are expected to increase further, by 1.5%.

In the business-to-business segment, it is mainly larger companies that are investing in IT, accounting for more than 60% of the total domestic IT expenses. That said, the IT spending capacity of SMEs remains subdued, a consequence of still restricted access to bank loans for smaller businesses and lack of resources. This also seriously limits SME investments into cloud computing. The consumer segment could be positively influenced by the diffusion of new appealing ICT devices and the growing importance of e-commerce business, which is still at an early stage in Italy compared to other European countries.

Some of the main domestic IT distributors have started to introduce their own brand products (tablets/smartphones) in the market in order to increase margins and counter the fierce competition in the ICT retail and distribution segments. However, in most ICT segments margins have improved over the last 12 months. Payments in the ICT sector generally take 60-90 days, payment experience has been good so far and the level of notified non-payments is low. ICT insolvencies decreased over the last six months, and are expected to level off in the coming months. Overall, the amount of business failures is rather low compared to other Italian industries.

Our underwriting approach remains generally open for ICT, especially for providers of value added IT services with growing market opportunities (network infrastructures, cloud computing) and large wholesalers of IT equipment and software. However, 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. Mainly smaller ICT equipment retailers will remain under pressure due to price competition (especially with e-commerce) and slim margins.



United Kingdom

- Added value service is key
- Slim margins in the telecommunications segment
- On average, payments take around 60 days



The general demand situation for ICT in the United Kingdom remains good. Demand for hardware products continues to decline (with shipments down 7.7% in 2015), however this is from a very high base, and IT products will continue to be required. 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, as we have seen a surge of investment in this area. However, British ICT businesses will face stronger competition from their European peers, mainly due to the strengthening of the pound.

Telecommunications is a slightly more difficult segment given the dominance of a few large players in both airtime and handsets. Mobile telecommunication retailers represent a slightly higher risk than other ICT segments. Margins remain slim due to the dominance of the key players, meaning that distributors are often looking at margins of about 3%.

Many IT resellers continue to lessen their reliance on hardware sales by offering value added IT services. This enables them to secure medium- to long-term contracts, which provide them with a better visibility of revenues. Additionally, service activities tend to provide higher margins. Competition continues to be fierce in

the ICT sector, 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 margins.

Most ICT companies finance their businesses with asset-based lending facilities. While businesses usually have a working capital deficit, they are able to leverage their debtor book in order to aid liquidity. With the bulk of the lending being asset backed and IT distribution/reselling not seen as a particularly risky sector, banks are generally willing to lend.

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 low, and this rather benign environment is expected to remain unchanged in 2016. Given those strong points our underwriting stance for the British ICT sector remains open.

Market performance at a glance

Australia



- The Australian ICT market is forecast to have considerable growth in the medium term, particularly in areas such as tablets, real-time enterprise software and data centres. The Australian government is an important factor, driving the IT market through its purchase programme and various initiatives, such as a Cyber Security Strategy and other initiatives to boost domestic software development.
- IT services sales are expected to grow from AUD 22.0 billion in 2016 to AUD 25.7 billion in 2019, with cloud services as the key growth driver.
- Computer hardware sales growth is expected to be relatively subdued due to market maturity, increasing from AUD 7.8 billion in 2016 to AUD 8.2 billion in 2019.
- Software sales are expected to increase from AUD 9.4 billion in 2016 to AUD 10.5 billion in 2019. Business application demand growth from small- and medium-sized enterprises as the software-as-a-service supply increases will be the main growth driver.
- Growth opportunities in the telecommunications subsector will remain severely limited in the years ahead due to the highly saturated nature of the market. Operators are now focusing on services, especially leveraging their investments into 4G networks.
- Our underwriting stance remains generally open for wholesalers/distributors and retailers, system integrators and IT software/services/hardware companies. The financial performance of ICT businesses should remain stable with banks willing to lend to companies. Protracted defaults and insolvency levels are low in this industry, however there have been two major business failures in the last 12 months.

Japan



- In 2016, growth in the Japanese ICT sector is expected to be modest at 0.9%, due to market saturation and a low economic growth forecast of 0.6%. A return to higher growth rates is expected in the medium term.
- The IT hardware segment is expected to contract due to saturation, longer replacement rates and migration to cloud services. However, cloud services and software development are expected to grow in 2016. Growth and profits in the telecommunications segment are expected to remain stable over the coming 12 months.
- Competition in the market is very high with Japan being the second largest IT market in the Asia Pacific region after China. The market is dominated by large companies such as Fujitsu, NEC, Toshiba, NTT Data and Hitachi.
- 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 no major increase is expected in 2016.
- Our underwriting stance for this industry is generally open due to stable growth and margin outlook, the low insolvency level and good payment experience.



The Netherlands



- In 2016 the Dutch ICT sector is expected to grow further, on the back of the country's continued economic rebound (GDP is forecast to grow 1.6% in 2016) and increasing consumer spending. Another driver of ICT growth is the rising business investment in big data and cloud computing solutions.
- The industry is characterised by sharp price erosion and fierce competition, especially in the ICT wholesalers segment. Market concentration is still on-going in this subsector. While margins are under pressure, most ICT businesses are still able to realize solid profits.
- While ICT businesses' bank financing requirements are generally high, banks are willing to provide credit to ICT companies.
- Payments in the ICT sector take 60 days on average and payment delays are expected to remain stable in the coming months.
- The insolvency level remains low compared to other industries. The ICT insolvency environment is expected to improve in 2016 after a slight deterioration in 2015.
- Our underwriting stance remains generally open, and we assess and determine the risks on a case-by-case basis. Our requirements regarding financial information of ICT buyers are very high, given that many companies in this industry face low margins and high competition.

Russia



- The Russian electronics/ICT sector suffers from the difficult domestic economic environment. Major retailers reported shrinking revenues in 2015, with decreases of 10%-30%, depending on the region.
- In 2016 no rebound in demand is expected. Currently all Russian electronics/ICT subsectors face major troubles, especially those retailers and wholesalers that trade in foreign currency.
- Consumer electronics is the most difficult segment, which is severely affected by the on-going slump in private consumption.
- Telecommunications suffers from the weak rouble and currency volatility in emerging markets. Only the IT segment shows less deterioration in demand.
- After decreasing in 2015, the margins of electronics/ICT businesses are expected to deteriorate further. Many players left the market, but nevertheless the degree of competition is steadily growing, and consolidation in the industry is on-going.
- Depending on the level in the supply chain and market leverage of businesses, payment duration in the industry ranges from 30 days to 120 days. Non-payment notifications have increased in 2015, and this negative trend is expected to continue in the coming months.
- Insolvencies have increased in the last 12 months, and further increases are expected in the coming months.
- Most cases of late payments and business failures are seen in the segment of regional small- and medium-sized electronics/ICT wholesalers and retailers; especially with businesses that were ill-prepared for the drop in consumer demand, or which did not hedge against foreign exchange risks and had a high gearing.

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.
- The UAE's ICT market is currently characterised by high competition, single-digit margins, low entry barriers and stagnating growth in subsegments like PCs and desktops. Low oil prices have put downward pressures on the economy and discretionary spending, including the ICT segment.
- 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 increased since Q4 of 2015, as have run-away cases due to cash problems in this industry. One of the main reasons for the increased default rate is the lack of support from banks in the form of reduced or cautious lending.
- 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 2016

| | Agriculture | Automotive/ Transport | Chemicals/ Pharma | Construction Const.Mtrl | 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 | | | | | | | |

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| Food | Machines/ Engineering | Metals | Paper | Services | Steel | Textiles |
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Excellent

Good

Fair

Poor

Bleak

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Industry performance

Changes since February 2016

Europe

Czech Republic

Machines/Engineering



Down from Good to Fair

Slower payments and more troubles for machinery businesses related to the mining and power engineering industry.

Sweden

Textile



Down from Fair to Poor

The sector is negatively impacted by increased insolvencies.

Hungary

Construction



Up from Poor to Fair

The sector benefits from an increased number of government projects, a subsidy for a new residential construction project and EU funds expected to be allocated in the near future.

Paper



Up from Poor to Fair

Decreased prices for key raw materials (pulp) and rising demand for paper in the Central and Eastern European region lead to higher sector growth.

Ireland

Agriculture



Down from Good to Fair

Deflated milk prices, following the removal of EU milk quotas, and lower demand from China are leading to reduced farm incomes and accordingly less demand for fertilisers, feeds etc.

Metals



Up from Poor to Fair

Steel



Up from Poor to Fair

Growing construction activity is leading to increased demand for steel and metal products.

Asia/Oceania

India

Metals

Down from Fair to Poor

Steel

Down from Fair to Poor

Decreasing global demand, falling sales prices and increased competition have hurt Indian steel and metal businesses. Steel companies continue to remain highly leveraged with weak debt protection.

United Arab Emirates

Automotive/Transport

Down from Good to Fair

Machines/Engineering

Down from Good to Fair

Both sectors are affected by decreasing demand due to rising economic difficulties in the UAE and in the region.

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