



# 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



# Standstill is a step back

In the world of information and communication technology (ICT) nothing stands still for long. The growth in ICT sales is set to continue in most developed markets and major emerging markets such as China and India. Innovative technologies like cloud computing are expected to record double-digit growth rates again in many countries. Regarding the markets covered in this market monitor issue, only Brazil bucks the trend, as the current economic downturn severely affects the ICT industry, which recorded robust growth rates in the last couple of years.

Despite the generally benign business environment for the ICT sector, some issues remain as competition is fierce in many segments, putting pressure on sales prices and margins. This is even the case in countries like China with its vast and still under-penetrated market. 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. In ICT, product life cycles remain short and smaller businesses' sustainability is driven by innovation and the ability to develop new products and bring them quickly to market.

# China

- High sales growth expected to continue
- Margins have deteriorated
- More payment delays over the past six months



## 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

Given the low cost of manufacturing, China is the global centre for ICT original equipment manufacturers, with a large number of production bases of ICT multinationals as well as small- and medium-sized local manufacturers. In terms of wholesale and distribution, the majority of businesses are small-sized companies, also helped by the low market entry barriers. There are a few medium and large-sized ICT traders in China with channel coverage of certain regions or the whole country.

According to the research institute BMI, ICT spending in China reached CNY 870.9 billion (EUR 130.4 billion) in 2014, a year-on-year increase of 9.9%, after increasing 8.9% in 2013. The higher growth was triggered by the withdrawal of support for the XP operating system by Microsoft in April 2014 as well as a series of reforms announced by the Communist Party in late 2013 (e.g. urbanisation development and reform of the one-child policy). Wider support for the services sector and modernisation of state-owned enterprises, including finance, telecommunica-

tions, healthcare, education and professional services (e.g. call centres) will be the most important reforms for boosting the ICT sector further, with software and services well placed for faster growth.

There have also been changes in ICT market regulations, including easing restrictions on game console sales and allowing foreign investment in the mobile valued added service market, which bode well for further liberalisation in the medium term. One area of rapid development is the cloud computing market in China, with domestic and global vendors targeting the market with a range of services.

In the coming years, the growth of ICT in China is expected to outperform on a regional and global basis. The country's large population, rising incomes and low device penetration boost ICT spending on the consumer's side. A supportive policy environment and reforms through to 2020 will fuel ICT investment from

**China: ICT sector**

	2013	2014	2015f
GDP growth	7.8	7.1	6.5
Sector value added growth	6.8	7.7	7.6
Sector share in the national economy (%)	0.1		
Average sector growth over the past 3 years (%)	7.3		
Average sector growth over the past 5 years (%)	7.5		
Degree of export orientation	low		
Degree of competition	high		

Source: IHS Global Insight, Atradius

the government and businesses. The rural and SME markets are expected to be the two highest growth segments for ICT, given that both are vast and still underpenetrated. BMI forecasts China's ICT spending will increase 8.8% in 2015, to CNY 947.5 billion (EUR 141.8 billion).

That said, China's ICT market is not without challenges as the pool of first-time buyers diminishes and vendors struggle with high levels of piracy, cyber security issues, fierce competition, price-sensitive consumers and eroding margins. As the market matures, vendors offering hybrids/convertibles and service businesses with strong cloud computing product portfolios are expected to outperform.

In 2015, China's ICT market will remain hardware-centric. Computer hardware sales are expected to increase 6.3% in 2015 to CNY 596.9 billion (EUR 89.4 billion), boosted by rising incomes and the low device penetration rate. PC penetration in China's rural areas is only 24%, far below that of 97% in first-tier cities. Vendors will continue tapping the growth potential of China's rapidly expanding middle class and underpenetrated low income second-tier city and rural markets in 2015. The increasing availability of low-priced Android-based tablets will boost overall spending. Economic, political and social reforms through to 2020 should mark the beginning of a new wave of investment by state-owned organizations and the private sector.

However, foreign brands are facing downward pressure in China due to the new government's preference for local brands, especially after Snowden's revelations of US data monitoring. Additional risk of cyber security and data sovereignty concerns have led to increased protectionism between the US and China. An increasing number of US vendors has started to cooperate with Chinese companies to manufacture products under local brands.

Growing global ambitions of Chinese companies and proceeding modernisation in the public and private sectors (especially among the vast pool of SMEs) will fuel investment in software in 2015. BMI expects software sales to grow 7.9%, to CNY 108.0 billion (EUR 16.2 billion).

IT services is the outperforming segment in China's ICT market. As a result of increasing demand from both government and enterprise segments, underpinned by an expansion of network infrastructure and modernisation initiatives, BMI forecasts IT services to increase 16.1% in 2015, to CNY 242.6 billion (EUR 36.3 billion).

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 often less strong. ICT is generally a low margin sector, and therefore businesses may invest into other fields to earn quick money, like microcredit companies, guarantee companies, and real estate. 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 diminishes.

High levels of piracy, cyber security issues, fierce competition and regulatory uncertainty

Source: Atradius

# France

- IT segment growth driven by larger business investments
- No increase in payment delays expected
- Many companies have tiny margins and low equity ratios



## 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

According to French research institute Xerfi, sales in the French IT segment increased 5% in 2014, mainly due to French companies boosting their IT expenditures - especially in new servers and analytic equipment for big data. Software, consulting and services activities amounted to EUR 49.5 billion (up 1%). SMACs (Social, Mobile and Analytics in the Cloud) and SaaS (Software as a Service) technologies recorded sales increases of 22% and 30% respectively.

The cannibalisation of PC sales by tablets continued in 2014, with the latter being the main growth driver in the hardware sector. However, the sales of tablets also slowed down in Q4 of 2014 (down 16% year-on-year) and sales prices decreased (one third of tablets sold at a price less than 100 euros). Smartphone sales increased 15.2% in volume to 18.2 million units in 2014.

As in 2014, the 2015 outlook for the French ICT industry looks reasonably favourable with sales growth expected to increase by 2%.

IT expenditures are expected to increase further due to the expansion of cloud computing, big data democratisation, and the need for higher mobility – now a must-have for many French businesses, driving servers and IT consulting demand up.

The software segment is expected to grow 3.4%. Computing hardware should grow to support the upgrade of infrastructure linked to the development of SMACs (expected to grow 18%) and SaaS projects (forecast up 25%).

That said, it is expected that the sales slowdown in the tablet segment in terms of volume and value will continue (average prices decreased by more than 60% between 2010 and 2014). According to GfK, tablet sales will reach 5.5 million of units in 2015, a year-on-year decrease of 11.3% (after increasing 70% in 2013 and 2% in 2014).

**France: ICT sector**

	2013	2014	2015f
GDP growth	0.4	0.4	1.1
Sector value added growth	0.0	1.0	2.4
Sector share in the national economy (%)			2.9
Average sector growth over the past 3 years (%)			0.7
Average sector growth over the past 5 years (%)			1.4
Degree of export orientation			low
Degree of competition			very high

Source: IHS Global Insight, Atradius

Despite overall growth, many French IT and consumer electronics companies suffer from structurally tiny margins, with equity ratios often not higher than 15%. IT service providers operate with earnings before interest, taxes, depreciation and amortisation (EBITDA) margins of only 7%, compared to 14% for software editors. Hardware wholesale margins rarely exceed 10%. IT service providers are competing on low added-value activities, while programmers and software editors have more market power and can generate higher prices. Margins will remain tight and working capital requirements will be a key issue for many ICT businesses again in 2015. Some ICT wholesalers are expected to suffer from the euro devaluation as most purchases are done outside Europe and billed in USD.

We expect payment delays to remain generally stable in the coming months, as the cash reserves of many electronics/ICT businesses are satisfactory. In addition, credit facilities will be reassessed by banks, based on positive 2014 balance sheets. However, there is almost no doubt that banks will continue to be restrictive in granting loans to businesses that are performing rather weakly.

The modest decrease in the level of bankruptcies at the end of 2014 should confirm a satisfying credit insurance claims trend in the ICT sector, that is still considered low, stable and acceptable in volume. Our underwriting position on smaller limits has been softened to maximise customer satisfaction, however excluding some wholesaling activities on which we decided at the end of 2014 to maintain a more conservative approach (level of claims frequency higher than total French average). We have to take into account that the risks for many electronics/ICT businesses are still high, especially for very small businesses with limited equity bases, as they will struggle to absorb any further decline in margins. For companies with more than 20 employees, the challenge remains to absorb protracted payments from their key customers.

**French ICT sector**

Strengths

Improving consumer confidence and household spending

High value added services support sound EBITDA levels

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



Weaknesses

Businesses often rely on a concentrated portfolio of suppliers and customers

Market is based on a large number of small and fragile companies

Lack of IT experts

Source: Atradius

# Poland

- Good growth prospects in the medium term
- Fierce competition and low margins remain challenges
- Stable payment behaviour expected



## 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 Polish IT sector is mainly divided into three segments: hardware (which accounted for 41% of sales in 2014), software (18%) and IT services (41%). Last year the Polish IT market grew 3% to PLN 29.7 billion according to BMI Research. Poland remains the most attractive IT market in Central and Eastern Europe. After strong double-digit growth rates before the 2008 credit crisis, annual growth rates have decreased to between 3% and 7%.

In 2015, IT market growth is forecast to slow down to 2.4%. Computer hardware spending is expected to decrease as businesses' hardware upgrade spending was boosted by Microsoft's withdrawal of support for the legacy XP operating system in April 2014, which brought forward demand from 2015. The tablet boom is expected to lose some momentum after strong sales in 2013 and 2014. An area of the hardware market where we envisage stronger performance in 2015 is low-cost notebooks and hybrid notebooks.

The IT software and services segments are expected to grow 3.4% and 4.3% respectively in 2015, with demand underpinned by rising business confidence. The telecommunication, financial services, and retail sectors in Poland all offer significant growth opportunities in 2015 as enterprises look for cost-saving and capacity-increasing IT products and solutions. There are specific opportunities in the healthcare segment as the government presses forward with the computerisation of hospitals and other health facilities.

The main strengths of the Polish IT sector are the stable demand from the public sector, a strong export performance and financial transparency, as the largest IT distributors are listed on the Warsaw Stock Exchange (WSE). IT services benefit from steady demand from sectors such as healthcare and financial services.

**Poland: ICT sector**

	2013	2014	2015f
GDP growth	1.7	3.3	3.2
Sector value added growth	3.6	-0.3	1.7
Sector share in the national economy (%)	1.0		
Average sector growth over the past 3 years (%)	4.5		
Average sector growth over the past 5 years (%)	3.8		
Degree of export orientation	high		
Degree of competition	very high		

Source: IHS Global Insight, Atradius

Despite good medium-term prospects, the Polish IT sector is affected by exchange rate volatility, seasonality of sales, fierce competition and low margins. The largest players continue to record rising sales revenues and increasing profits, made possible by the high volume of sales (which enable them to offer competitive prices) and increasing exports. For example, in the IT distribution segment three large players (AB SA, ABC Data SA and Action SA) hold together a market share of more than 75%. Those three players are increasingly taking over smaller distributors' market shares and entering other, higher-margin sectors (like toys in the case of AB SA).

It is common in the Polish IT sector that many companies have a low net worth, and solvency very often does not exceed 25% (the situation is even more serious for system integrators with very high seasonality).

Due to very high competition, the level of profitability rarely exceeds 2%. The whole sector has to deal with low margins and focus on cutting costs. Liquidity is very often strained. It is characteristic for this sector that companies have a diversified portfolio of contractors and change their suppliers very often.

Our underwriting approach towards the IT sector can be described as neutral to positive. Insolvencies and payment delays are not expected to increase in 2015. The three biggest players in the IT distribution segment are all quoted on the WSE, and are highly rated and transparent in their actions. However, smaller players have to be monitored more closely. Low margins, fast growth, insufficient management and controlling quality are all indicators that may indicate problems.

**Polish ICT sector**

Strengths

Stable demand from the public sector

Established foothold in export markets

Financial transparency – largest IT distributors are listed on the Warsaw Stock Exchange



Weaknesses

Low margins and high competition

Exchange rate volatility

High seasonality of sales

Source: Atradius

# United Kingdom

- Slim margins due to dominance of key players
- Many businesses with weak balance sheets
- Uncertainty over public sector contracts



## 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 UK ICT sector consists of more than 115,000 companies with revenues of more than GBP 140 billion. The British computer software industry accounts for 5% of the worldwide market. The British mobile phone market is the largest in Europe with a value of GBP 14 billion annually and 80 million mobile subscriptions.

In 2015, it is expected that PC sales will continue to decrease while the tablet and smartphone sales continue to grow, but both are getting closer to saturation. Margins remain slim due to the dominance of the key players – Samsung and Apple (e.g. Apple has always stated within their contracts that their products are not able to be sold at a discount, meaning that distributors are often looking at margins of about 3%).

However, the continued development of mobile apps and new technology will continue to drive the sector forward. We are also expecting to see some significant growth from the wearable technology segment, with research institute CCS Insight forecasting a 158% sales increase in 2015.

Additionally, data centres and cloud storage are the areas that are anticipated to drive the sector forward, as we have seen a surge of investment within this area. However, British ICT businesses will face stronger competition from their European peers, mainly due to the strengthening of the pound. While this will drive some businesses to turn to foreign ICT companies, data integrity and disaster recovery will mean that many businesses still have to store their data within the UK, and therefore will rely on British IT businesses.

### United Kingdom: ICT sector

	2013	2014	2015f
GDP growth	1.7	2.6	2.7
Sector value added growth	2.5	2.4	4.3
Sector share in the national economy (%)	3.2		
Average sector growth over the past 3 years (%)	2.2		
Average sector growth over the past 5 years (%)	2.7		
Degree of export orientation	average		
Degree of competition	very high		

Source: IHS Global Insight, Atradius

Public sector contracts account for a significant amount of business for IT companies. In this segment seasonal peaks remain a concern, as the public sector continues to drive high volumes of sales at two key points in the year – fiscal budget year-end (April) and school holidays (September). During these two periods, multi-million pound contracts can be won and lost, strongly shaping the annual results for the impacted distributors.

2015 is expected to be another difficult year for the public sector as budgets continue to be reduced. The outcome of the general election in May could play a significant role in the future ICT spending of councils and other public sector bodies.

Balance sheets of ICT companies are often weak due to the lack of assets and high reliance on bank borrowing. Premises and machinery are generally leased to keep overheads low, which means the funding needs to be secured against debtors and personal guarantees. It is also common in the sector for directors to extract dividends on an annual basis which impedes the strength of the balance sheets.

### British ICT sector



Strengths

Importance IT plays for most industry sectors

Technology developments maintain high demand

Generally attractive for investors



Weaknesses

Reliance on external funding

Lack of profit retentions

High competition

Source: Atradius

# United States

- Growth continues in most segments
- Pressure on businesses' margins remains
- Payment terms range between 30 and 90 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

According to the Consumer Electronics Association (CEA), US consumer electronics industry's revenues are expected to grow 3% year-on-year in 2015, to a record USD 223 billion (up from USD 217 billion in 2014). US consumer sentiment continues to improve thanks to solid economic growth rates, lower gas prices and a recovering job market. That said, US consumers still remain somewhat cautious in their discretionary spending, continually looking for the best deals. This continues to fuel the ongoing price competition among consumer electronics/ICT retailers and the need for more promotional activity, which in turn continues to put pressure on margins and causes competing firms to find ways to reduce their expenses in an industry with heavy R&D spending requirements.

Smartphones and tablets will remain the top two revenue drivers in the segment, accounting for about 35% of total consumer electronics revenue. That said, revenue growth for these devices, particularly tablets, has slowed as product categories have ma-

tured. According to CEA, unit sales of smartphones are expected to reach USD 169 million in 2015, up 6% year-on-year. Total smartphone revenues are projected to reach USD 51 billion (up 5%). Sales of tablets are expected to grow 3% (up to 81 million units) with revenues reaching USD 25 billion, down 1% year-on-year.

Revenues for new, emerging product categories are expected to double in 2015 with strong demand for 3D printers, 4K Ultra HD TVs, connected home products, unmanned systems and wearables (e.g. health and fitness devices along with smart watches). Revenues in the global 3D printing industry rose 34% in 2014 with the numbers of printers shipped increasing 68% as many consumers purchased their first 3D printers. Increased volumes were driven by more affordable and lower price options.

With expected growth in new vehicle sales in 2015, manufacturers of automotive electronics and audio systems are likely to

**ICT sector**

	2013	2014	2015f
GDP growth	2.2	2.4	3.0
Sector value added growth	5.6	3.4	3.7
Sector share in the national economy (%)			3.0
Average sector growth over the past 3 years (%)			5.1
Average sector growth over the past 5 years (%)			6.0
Degree of export orientation			average
Degree of competition			high

Source: IHS Global Insight, Atradius

benefit from higher utilisation of 4G technologies. It is expected that by 2020, 75% of all cars will be connected to the Internet. On the negative side, traditional PC/desktop sales will continue to be weak in 2015 as businesses slow the rate of PC replacement and consumers spend their money on tablets and smartphones.

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. According to the US Semiconductor Industry Association (SIA), the US semiconductor market alone posted double-digit growth in 2014, with US semiconductor company sales totalling USD 173 billion, and the outlook for 2015 remains promising. The industry represents one of America's top exporters, employing nearly 250,000 workers and continues to be a leading job creator in the US economy.

Payment terms in the ICT sector still commonly range between 30 and 90 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 2015 will be on par with that of 2014 with little change in the overall payment behaviour. While the level of insolvencies is expected to remain low, they will nevertheless occur, given high competition, many startups and short product cycles.

As in 2014, 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. 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, with many looking to offset pricing pressures by expanding into higher margin product categories. Many businesses continue to rely heavily on bank facilities and external financing, resulting in leveraged balance sheets. Given the recent currency devaluation in some Latin American markets, we have seen some exporters impacted by cash flow issues in this region.

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 market. Therefore, when analysing buyers, the level of transparency in their products and their life cycles – including any insight into buy-back 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

## India

- **Export growth of IT services outsourcing**
- **Some major growth constraints remain**
- **More cautious underwriting on IT resellers remains**



BMI Research forecasts another strong year of ICT spending growth in India in 2015, underpinned by robust economic growth (forecast 6.7% in 2015) and an increasingly supportive policy environment. According to BMI, total ICT spending will increase 11.6% in local currency terms in 2015 to reach a total value of INR 2.45 trillion. Robust growth is expected to continue over the medium term, with compound annual growth rate (CAGR) forecast at 11.6% for 2015-2019, and market value expected to reach more than INR 3.8 trillion in 2019.

While the main growth driver in 2015 will be notebooks, tablet sales are also expected to witness growth after a contraction last year. Enterprise and public service modernisation will offer vendors considerable opportunities, with cloud computing and small- and medium-sized enterprise (SME) solutions and services expected to be areas of strong performance. However, constraints to growth will be increasing global competition, persistently high software piracy rates and potential currency volatility. In Q1 of 2015 IT services exports to non-US markets, including Europe, have been severely hit by dollar gains against other major currencies.

The National Association of Software and Service Companies (NASSCOM) indicated that India's IT services outsourcing sector is expected to register an export revenue growth rate of 12%-14% in the financial year 2015-2016 (which in India starts April 1st and ends March 31st). Future growth in the sector will be fuelled by growing demand in global corporations for new services such as digital technology, mobile applications and cloud computing. The cloud computing market in India is still at a nascent stage, but developing rapidly. Global vendors such as Cisco, Microsoft, Amazon and IBM are triggering growth in the market. There is also a strong government push driving awareness and adoption of cloud services. More local end users are moving towards cloud computing as new offerings are being placed in the market.

There is also an increasing number of start-ups in the Indian IT market. According to a report by NASSCOM and Zinnov (January 2015), India has emerged as the fourth largest base for start-ups globally. The rise is attributed to unique solutions being offered by Indian start-ups in global whitespace opportunities like the Internet of Things, augmented reality, smart hardware, business intelligence and many more.

National IT distributors or large software/hardware companies are either publicly listed or privately owned by strong groups. Issues with liquidity and solvency typically arise with IT reseller businesses. In this segment in particular we continue to maintain a prudent approach. IT hardware resellers are mostly partnership/proprietorship companies working on very low margins, impacted by multiple sourcing, tougher competition and price volatility due to currency fluctuation. While financial information is readily available for incorporated companies, difficulties arise in the case of 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 such instances, apart from taking into consideration qualitative factors, we ask for our customers' assistance in obtaining up-to-date financial documents on their buyers, along with detailed trading history.



## Italy

- A modest rebound expected in 2015
- IT investment by Italian SMEs still low
- Payments take between 60 and 90 days on average



The ICT sector accounts for 1.6% of the Italian economy, with approximately 130,000 companies and 600,000 employees. In 2013 and 2014, ICT sales contracted 4.3% and 3.7% respectively as the Italian economy was in recession and public as well as private spending decreased. In 2014, the tablet segment recorded a 8% year-on-year decrease due to lower household spending and increasing market saturation. In the business segment, the two segments of server and storage devices recorded slight positive performances, with sales up 8% and 2.6% respectively.

According to the Italian Statistics Institute (ISTAT), in Q4 of 2014 the production of computers, electronics and optical products rebounded 9.6% compared to the previous quarter, and 4% year-on-year. In combination with a forecast rebound of the Italian economy (up 0.7%), the ICT sector is expected to record modest growth of 0.6% in 2015.

In the business-to-business segment, IT investment is mainly made by larger companies, accounting for about 60% of the total IT domestic expenses. In 2015, IT spending in this segment is expected to rebound, while the IT spending capacity of SMEs remains subdued, a consequence of still restricted access to bank loans for smaller businesses. This also seriously limits SMEs investments into cloud computing. In the public and health services sectors, IT spending will continue to be affected by austerity measures. 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 remained stable over the last 12 months. Payments in the ICT sector generally take 60-90 days, and there has been no significant increase in notified non-payments. ICT insolvencies decreased in the second half of 2014, 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 relatively open for ICT. 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 resellers will remain under pressure due to price competition and slim margins. The segment of software consultancy and supply is also more closely monitored, given that there have been more credit insurance claims in this subsector than in other segments.

# Market performance at a glance

## Australia



- The Australian IT market is forecast to have considerable medium-term growth potential, particularly in areas such as tablets, real-time enterprise software and data centre growth.
- IT services sales grew by more than 8% in 2014, and will continue to be the highest performing segment, with cloud services the key growth driver as local companies try to use efficiencies enabled by high speed internet.
- The Australian Government is an important factor, driving the IT market through its purchase programme and various initiatives, such as boosting domestic software development.
- Growth opportunities in the telecommunications subsector will be severely limited in the years ahead due to the highly saturated nature of the market. However, in the mobile segment there is still growth potential given the increasing popularity of mobile data services.
- Our underwriting stance remains generally open for wholesalers/distributors and retailers, system integrators and IT software/services/hardware companies. With minor exceptions, ICT businesses continue to show yearly growth rates. The financial performance should remain stable with banks willing to lend to ICT companies. Protracted defaults and insolvency levels are low in this industry.

## Brazil



- The Brazilian ICT market contracted 20% in 2014 and is expected to show another 10% decline in 2015, despite the fact that the government has extended several tax waivers (including its Digital Inclusion Programme) until 2018.
- The sector is generally hampered by the current economic downturn and lower business investments.
- The currently high interest rate of more than 12% and high inflation impact households' spending power, while the public sector cuts expenditures due to austerity.
- Another negative factor is the devaluation of the Brazilian real against the USD, given that a large share of ICT products is imported (about 70%) and denominated in USD. Although the main suppliers have hedging programmes to protect their distribution chain, a 10-15% price increase is expected.
- Brazilian ICT businesses' profit margins have strongly deteriorated over the past 12 months, and this negative trend is expected to continue.
- ICT payment delays and insolvencies have increased in 2014, and are expected to rise further in the first half of 2015. The level of protracted payments and business failures is currently high.
- Due to serious economic problems (decreasing demand, exchange rate volatility and high interests rates), our underwriting stance is restrictive.



## Germany



- According to the German Federal Association for Information Technology, Telecommunications and New Media (BITKOM), overall consumer electronics/ICT sales will grow 1.5% in 2015, to EUR 155.5 billion. While turnover in the consumer electronics and telecommunications segments are expected to decrease, IT sales (IT hardware, software and services) are forecast to increase 3.2%.
- 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. The general solvency and liquidity position of ICT businesses varies from tight to sufficient.
- 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 2014, ICT insolvencies increased 4.7% year-on-year, against the overall trend of decreasing business insolvencies in Germany. We expect insolvencies to level off this year.
- ICT is a very fast and innovative industry, with generally good growth prospects, but low margins, sharp price erosion and steep competition lead to an ongoing 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.
- Against this background, our underwriting approach remains necessarily selective, and 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.

## The Netherlands



- In general, Dutch ICT businesses' profit margins remained stable in 2014.
- In 2015, the Dutch ICT sector is expected to grow 3% in volume, on the back of the country's economic rebound (GDP is forecast to grow 1.7%).
- Another driver of ICT growth is the rising business investment in big data and cloud computing solutions.
- 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. ICT insolvencies decreased from 379 cases in 2013 to 275 cases in 2014. The ICT insolvency environment is expected to remain stable in 2015.
- Our underwriting stance remains generally open, and we assess and determine the risks on a case-by-case basis.

## United Arab Emirates



- The UAE's ICT market (mainly consisting of PC, other computer hardware, software & services) is estimated by BMI to be worth EUR 3.6 billion in 2014. PC sales and services accounted for the majority of sales, with a 40% and 33% market share respectively.
- The ICT value chain 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. Volume growth in ICT is reported to be higher than value growth due to a decline in the average sales price of ICT products.
- Payment delays and protracted defaults are quite frequent, as are runaway cases due to cash problems in this industry.
- Our underwriting stance is rather selective and especially cautious on distributors and resellers exporting to high political risk countries in the Middle East and Africa.
- As Dubai has significant re-export trade with Iran, any uplift of sanctions would significantly benefit ICT traders in the UAE.

# Industries performance forecast per country

May 2015

	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

Excellent

Good

Fair

Poor

Bleak

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# Industry performance

## Changes since April 2015

### Europe

#### Poland

##### Automotive



Up from Poor to Fair

The export-oriented Polish car sector profits from a still weak exchange rate of the PLN against the euro and increasing demand from the EU car market.

##### Construction/Construction Materials



Up from Bleak to Poor

While the sector is still facing troubles, it will benefit from EU funding worth EUR 78 billion for several infrastructure projects in 2015-2020.

##### Electronics/ICT



Up from Poor to Fair

For ICT see article on page 9. The electronics sector is rebounding after some major insolvencies in 2013 and 2014 as economic and private consumption growth accelerate.

#### Portugal

##### Textiles



Up from Poor to Fair

Textiles exports (especially shoes and leather goods) increased 10% in 2014, along with rising employment and investments in the industry.

#### Slovakia

##### Agriculture



Down from Fair to Poor

The sector is negatively impacted by low state subsidies, weak capitalisation and high pressure on prices due to increased imports.

#### Spain

##### Metals



Up from Bleak to Poor

The outlook is more benign than in the past. The production of metals increased 1.8% in 2014, together with increases in turnover and new orders. Demand for metal products rose 3.2% year-on-year.

##### Steel



Up from Bleak to Poor

After six years of contraction or stagnation, a rebound has finally started in 2014 with production growth and increasing exports. Domestic steel products demand around 2% in 2014.

## The Americas

### USA

#### Metals



Down from Fair to Poor

#### Steel



Down from Fair to Poor

Both sectors suffer from decreasing global demand (particularly from China), and oversupply, leading to lower prices. In the US, oil and gas companies have cut their capital spending, which has dramatically reduced demand for pipes and other metal fittings, leading to some business failures.

## Asia/Oceania

### Australia

#### Metals



Down from Fair to Poor

The minerals/mining subsector is negatively affected by decreased iron ore prices.

### Thailand

#### Services



Up from Poor to Fair

The sector is expected to profit from an increasing number of tourists after the recent lifting of the martial law.

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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](mailto:info@atradius.com)  
[www.atradius.com](http://www.atradius.com)