In line with the economic slowdown, companies preemptively reduced payment delays in 2018, except for Mediterranean countries

- **Global average Days Sales Outstanding (DSO) fell by -1 day to 65 days in 2018**, following a 10-year high in 2017, a sign of companies taking a cautious approach to their clients' payment behavior. As world GDP growth continues to slow further, **Euler Hermes expects DSO to reach 64 days in 2019.**
- Chinese companies **still recorded the longest average payment term at 92 days**, with one in four companies being paid after four months, mirroring their role as as "invisible banks" at a domestic level and for the rest of Asia.
- **Mediterranean countries are back to their bad habit of paying late**: Italy, France, Greece and Spain saw their average DSO lengthen by +5 days, +2 days, +2 days and +1 day, respectively, in 2018.
- Companies in **the electronics (-2 days), machinery (-1 day) and construction (-3 days) sectors continue to suffer from the longest DSO with 89 days, 86 days and 82 days**, respectively, in 2018 - well above the global average. B2C companies had more control over payment times.

Paris, May 15th 2019 – Euler Hermes issued its annual review and forecast of global average Days Sales Outstanding[1] (DSO), based on a sample of 25,000 listed companies across 20 sectors and 36 countries. Days Sales Outstanding (DSO) is a measure of how long it takes companies to collect cash from customers.

Euler Hermes' study shows that after hitting a 10-year high in 2017, global average DSO **fell by -1 day to 65 days in 2018**, a sign of companies becoming more cautious in line with the global economic slowdown. As world GDP growth slows further this year, **Euler Hermes expects DSO to reach 64 days in 2019.**

Companies are concerned over the global growth deceleration

In 2017, the re-acceleration of world economic growth led to a noticeable rise in global average DSO, which reached its highest level since 2007 at 66 days. Companies placed greater trust in customers due to a better economic and financial background.

However, 2018 was marked by global uncertainty, which is expected to lead to a deceleration of global growth in 2019 to 2.9% y/y, according to Euler Hermes, compared with 3.1% y/y in 2018. Worried companies are tightening their credit conditions. As a result, **DSO is likely to continue its downward trend to hit 64 days on average in 2019.**

A global downward trend from Asia to Northern countries

China once again recorded the longest average payment term in the world at 92 days (+27 days above the global average), despite reducing its DSO (by -1 day in 2018 vs. 2017). This reflects the role of Chinese companies as "invisible banks" at a domestic level and for major trade partners, which is consistent with a less mature and less open financial system. But this is dangerous: It makes Chinese companies more fragile.

Nordic countries and North America successfully maintained their customers' payment discipline. Despite usually having levels structurally lower than the rest of the world, in 2018, **Canada and the U. S. still managed to reduce their DSO to 52 days and 51 days, respectively.** This reflects

[1] The Day Sales Outstanding (DSO) calculation, also called the days' sales in receivables, measures the number of days it takes a company to collect cash from its credit sales. The ratio is calculated by dividing the accounts receivable by the total revenue of a company on one year and then multiplying it by 360.

cultural preferences but also shows that cash-rich companies in these countries can adapt rapidly to changing trends in global growth.

In spite of weakening economic conditions, **Norway (53 days), Sweden (57 days), the UK (52 days), Germany (54 days), Poland (59 days) and Belgium (59 days)** all managed to lower their DSO, anticipating an upcoming deceleration of growth and adapting to rising difficulties in the car industry.

Mediterranean countries are a case for concern

Mediterranean countries are lagging behind, including Greece (91 days), Italy (86 days), Morocco (84 days), Turkey (79 days), Spain (78 days) and France (73 days), where companies are back in the bad habit of getting paid late by their customers. *"This could be another illustration of the delay traditionally taken by European companies to anticipate the economic cycle. But it is dangerous to run out of cash as global growth and trade are decelerating*" said **Maxime Lemerle, Head of Sector and Insolvency Research**.

B2C and B2B sectors have to deal with a diverging DSO destiny

B2C industries have a higher capacity, compared with B2B, to impose new terms of payments when needed. So they are more likely to grant longer terms of payments for commercial reasons if they consider the cycle as not being too deteriorated. Indeed, in a macroeconomic perspective, as we are in a late phase of the cycle, and as they are exposed with a delay to economic fluctuations, B2C companies can be incited to continue proposing laxer terms of payment.

B2B industries are more directly and in an earlier manner impacted by the fluctuation of the economic cycle. They are more cyclical by nature. They have already observed a global deceleration of growth, meaning upcoming economic hardship; as a result, companies fearful of being paid too late shortened their DSO in 2018.

Although it shows the lowest DSO level compared to all other sectors (30 days**), retail must be watched carefully**, as its DSO plummeted by -5 days on average last year. As the sector's business model is turning upside down, it has strongly tightened up its overdraft facilities. Upstream sectors could be affected if retailers were to also increase their own Days Payable Outstanding (DPO).

You can find the full study here.

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