VOICE OF THE CFO- NAVIGATE THROUGH UNCERTAINTIES

Euler Hermes Asia Pacific CFO Survey Report Q1 2020

A company of Allianz

EULER HERMES

FOREWORD

Dear CFOs,

Thank you very much for taking part in our survey. We had received a total of 171 responses which were truly appreciated and overwhelming. As the global leader in trade credit insurance, we improve and advance by listening to our customers directly. Not only would your feedback help us to make sure our products and services are addressing the changing economic climate, but also if they are carefully tailored to your and the rest of our customers' needs.

Our survey was designed to find out how companies fare under economic uncertainty. We found that the top risk mitigation tool employed by respondents was minimizing exposure to less creditworthy customers (36%), which essentially meant compromising sales revenue. We also found that a compelling percentage of respondents have experienced different levels of unpaid receivables (73%) and delayed payments (82%) over the past three years. A wake up call for more prudent and targeted cash flow and risk mitigating measures.

We launched this survey in late 2019, at the time Asia Pacific economies were impacted by the triple whammy of US-China trade feud, the prolonged social unrest that handed Hong Kong its first annual recession in a decade, and the Covid-19 pandemic which has begun to completely alter the global economic landscape. Against such complicated environment, apart from the survey results, our economic research department also provided their take on how has Covid-19 impacted trade as well as their latest global scenario and growth forecasts. We hope that decision makers would find these information useful when positioning their companies and trade strategies in the near term.

I wish to once again convey my sincere gratitude to the senior executives who participated in this survey. Your views and comments would surely help us to better understand the market's needs. We strive to continue to optimize our services and products to serve you better, particularly when trade resumes after de-confinement. We stand firmly by your side, as your trusted trade credit solution provider.

Holger Schaefer
Head of Region, Asia Pacific

COVID-19 AND ITS IMPACT ON TRADE IN APAC

The Covid-19 pandemic instigated an unprecedented disruption to the global economy and world trade, as production and consumption are scaled back across the globe.

The first wave of Covid-19 hit the Chinese and Asian economies in the midst of this survey and subsequently, the global economy was set alight as the outbreak spread with no bounds. This pandemic essentially caused an unprecedented global lockdown. Based on the latest forecast from our economic research department, we are expecting 2020 global GDP to drop by -3.3%, which is equivalent to USD9tn lost or more than twice as bad as the 2009 Global Financial Crisis. As we look ahead, we are highlighting the below trends:

LENGTHY U-SHAPED RECOVERY

It is no secret that the full-fledged lockdowns have triggered an economic shock of unprecedented proportions. Taking into account the most recent progression of the pandemic and the decisions of different authorities, we now expect two months of lockdown on average for more than half of the global population and GDP, which has led to a significant downward revision of our global GDP scenario from +0.5% to -3.3% in 2020. Simply put, we consider this is the worst recession since WWII. Subject to a full return of business-as-usual by mid-2021, our central scenario reiterates a U-shaped recovery with global GDP growth reaching +5.6% next year.

TROUBLED TRADE

In terms of global trade, with two quarters of recession in goods and services trade (Q1 and Q2 2020), we are expecting an annual volume contraction of -15%. In value terms, plummeting commodity prices and a stronger USD will weigh on prices. Hence we expect global trade in value to fall by -20% or USD3.5tn in 2020. This will effectively push company turnover growth to -30% to -40% year-on-year in Q2 2020.

RISING PROTECTIONISM

We are also noting increasing evidence of rising protectionism (export restrictions on masks could increase their prices by +20%), desire for industrial autonomy (Europe, France and the US for health and critical supply chains) and hidden subsidies (Japan's USD2.2bn stimulus plan to shift production out of China). In the short-term, export bans could jeopardize the fight against Covid-19, especially in emerging and developing countries; in the medium-term, trade barriers could signal a potential trend of shortening of supply chains, more investment protection and thus a costly (if happening) rebound.

ALARMING INSOLVENCIES

Despite unprecedented governmental support (i.e. tax deferrals, state loans and guarantees) to help corporates to escape from top insolvencies and subsequent domino effects, we are still expecting global insolvencies to increase by at least +20% in 2020. This fourth consecutive year of rising insolvencies are largely attributable to a +25% increase in the US, a +15% rise in China and a +19% surge in Europe.

ASIA PACIFIC

We are expecting aggregate growth to decline to -0.6% in 2020, which means that the Covid-19 shock for the region would be larger than the Asian financial crisis (1998 GDP grew by +0.1%). All of the key economies in the region will likely experience a technical recession in H1 2020 (except for China and India), as confinement measures are being announced and/or extended. Economies which are seeing second and/or third waves of outbreaks and more dependent on global trade and tourism are likely to be hit the hardest. Going into 2021, we expect a recovery in APAC with GDP growth improving to +6.5%. However, in a downside scenario of protracted global crisis, GDP growth for the region could decline as much as -9.8% in 2020 before rebounding to -0.1% in 2021.

In APAC, electronics, non-food retail, transportation and automotive are some of the sectors which will be hit the hardest by the Covid-19 pandemic.

With Chinese assembly factories shut for three months in early 2020, new components orders addressed to electronic component manufacturers (semiconductors, active and passive components) are adversely affected. South Korea (19% of global electronic component value added), Taiwan (13%) and Japan (12%) appeared the most at risk, as well as Chinese manufacturers themselves (19%).

The electronics sector's global market capitalization has fallen by more than 10% since the beginning of the outbreak. With a deterioration in the sector across many Asian economies in past quarters, in line with decelerating global industrial production and a collapse in memory semiconductor prices, we expect to see a surge in large insolvencies. Much like intermediate goods industries, electronics react strongly to periods of economic recessions. With the outbreak intensifying, Asian manufacturers will be hit by a supply-shock by Chinese containment measures which would result in further falling in demand.

Many retailers and consumer goods companies have warned over the possibility of lost sales due to the disruption of supply chain from the lockdown of Chinese assembly factories. Luxury companies are feeling the most dramatic impact of the Covid-19 outbreak since Chinese consumers account for about a third of global demand. Covid-19 has also weighed heavily on those Asian economies where Chinese tourists account for a sizeable share of retail sales, such as South Korea, Taiwan, Vietnam, Thailand and Singapore.

Inevitably, transportation is one of the sectors most impacted, given its high dependence on China and activities closely linked to travel and international trade. Since the initial shock in China, all the subsectors of transportation have struggled amid collapsing demand: air, sea, road and railways. With most key economies closing their borders, recreational travel has come to a halt since March 2020. Virgin Australia was one of the first airlines to come under the insolvency spotlight and we expect there will be more to come.

The machinery sector in the region has about 20-30% of revenue exposure to China alone. As China is an important supplier, accounting for 35% of global value added, there is a high degree of linkage with regard to intermediate products. With tightening financial conditions and the outbreak spreading to all key economies, the machinery sector might see payment delays from struggling end-customers. Companies that are already facing project delays and widespread lockdowns reinforce that dynamic and subsequently create very significant supply disruption.

To support our sector prediction, as of end of March 2020 in APAC, we see a significant year-on-year increase of claims notifications in the following sectors:

- Automotive manufacturers: + >500%
- Transportation: +20%
- Retail: +20%
- Machinery and equipment: +4% (with more to follow in Q2 2020)

EULER HERMES

At Euler Hermes APAC, we are helping to manage our customers and our portfolios for the post-pandemic recovery. That means we are adapting revised risk strategies to support our customers who have demonstrated a capacity to recover quicker. It also means showing that we are in partnership with our customers by fast-tracking settlements, offering more flexible payment options and longer grace periods for premium payments and over-due notices.

In summary, Euler Hermes takes a long-term, flexible approach to managing our customers' risks while sustaining our own business for the post-pandemic recovery.

EXPECTED GLOBAL GDP **IN 2020**

-3.3%

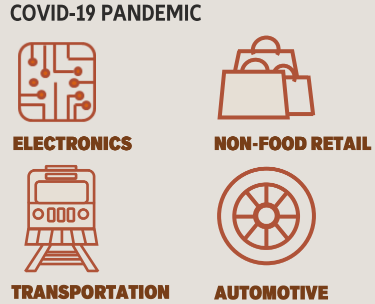
EXPECTED APAC GDP **IN 2020**

-0.6%

EXPECTED GLOBAL INSOLVENCY **IN 2020**

+20%

SECTORS TO BE HIT HARDEST BY COVID-19 PANDEMIC



SURVEY ANALYSIS

DEMOGRAPHY

SURVEY PERIOD

From December 2019 to February 2020

NUMBER OF RESPONSES

171

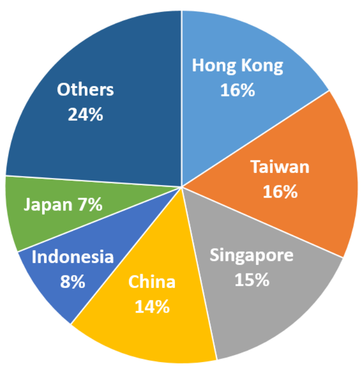
TOP 3 ROLES

23%
CFO

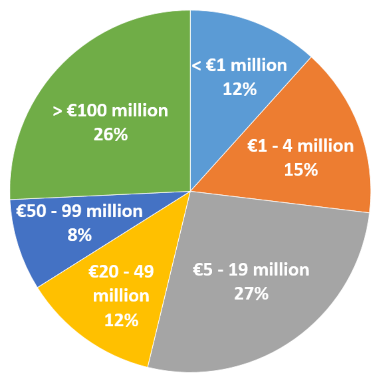
18%
Other C-level Executive/ Partner

14%
Financial Director/ Controller

LOCATION BASED

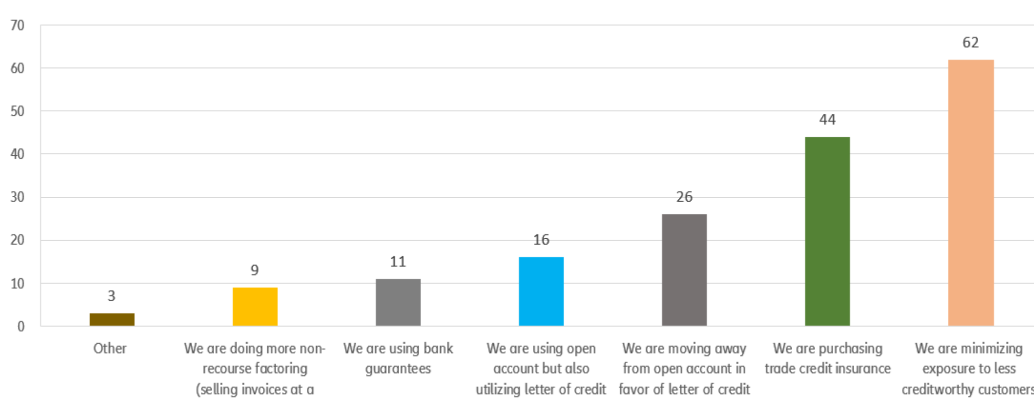


COMPANY TURNOVER



OPERATING ENVIRONMENT ANALYSIS

QUESTION 1: WHICH OF THE BELOW IS THE MOST COMMON RISK MITIGATION TOOL THAT YOUR COMPANY HAS EMPLOYED?



With the top risk mitigation tool being prevention, 36% of the respondents choose to minimize exposure to less creditworthy customers. Whilst this is an effective strategy for business which wants to grow steadily with limited prospects of expanding to new buyers, markets and geographies, it is interesting to note that 37% of businesses, which do not use an effective risk mitigation tool, have answered "frequently" or "sometimes" in delayed payments and unpaid receivables in Question 2.

The second most used risk mitigation tool is the purchase of trade credit insurance (25% of respondents). By purchasing trade credit insurance (TCI), companies are able to expand their sales with a peace of mind – If receivables are insured, a company can safely sell more to existing customers, or go after new customers that may have been perceived as too risky. They could also expand into new international markets as not only does TCI protect against unique export risks, but along with the market knowledge as part of the services, it could facilitate decision makers to make accurate growth decisions.

Very often, businesses are trading with long standing customers who they may think are well funded and their payment can be counted on. However, even the strongest commercial relationships can be affected by the economic cycle and commercial trends.

QUESTION 2: HAVE YOU EXPERIENCED ANY OF THE FOLLOWING OVER THE PAST THREE YEARS?

	Frequently	Sometimes	Rarely	Never	Total
Delayed payments	37	49	54	31	171
Unpaid receivables	13	40	72	46	171
Treasury issues	5	20	44	92	161*
Fraud	2	17	61	91	171
Supplier delivery delay/ default	1	44	81	45	171
Credit line refusal from bank(s)	1	26	37	97	161*
Cyber attack	1	17	57	96	171

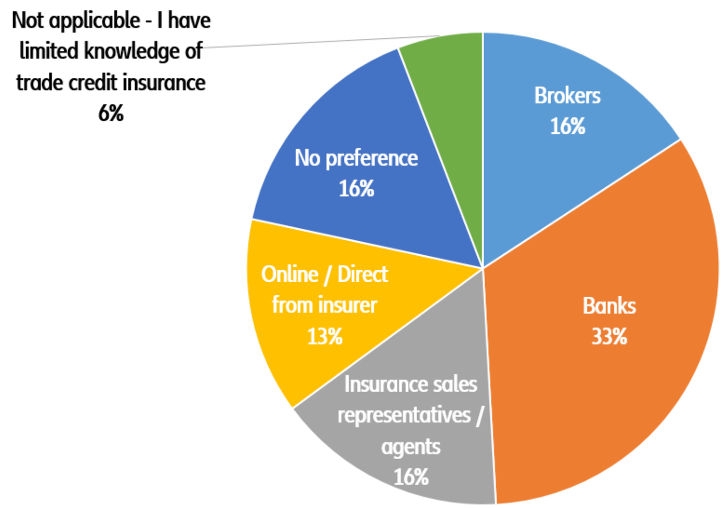
* Japan did not take part in this question.

In today's volatile business environment, risk management is constantly in the spotlight of businesses, ranging from Small Medium Enterprises (SMEs) to Multi-National Corporations (MNCs). Risk management is most of all about understanding risk and ideally quantitative, therefore its financial impact.

Once existing and potential risks are identified, it is about making measured and rational strategic and operational decisions. In this survey, we asked our CFOs to identify how regularly their businesses are faced with some of the key trending issues.

The most common issue facing most CFOs is delayed payments, with 21% of respondents listed they suffered frequently. 57% of the respondents who answered "frequently" or "sometimes" impacted by unpaid receivables and delayed payments do not have existing TCI cover, of which however, 67% are interested in knowing more. On average, a company trades on approximately 20% open account/account receivables, should a buyer defer or default on payment, this could be detrimental, especially if it is a significant buyer.

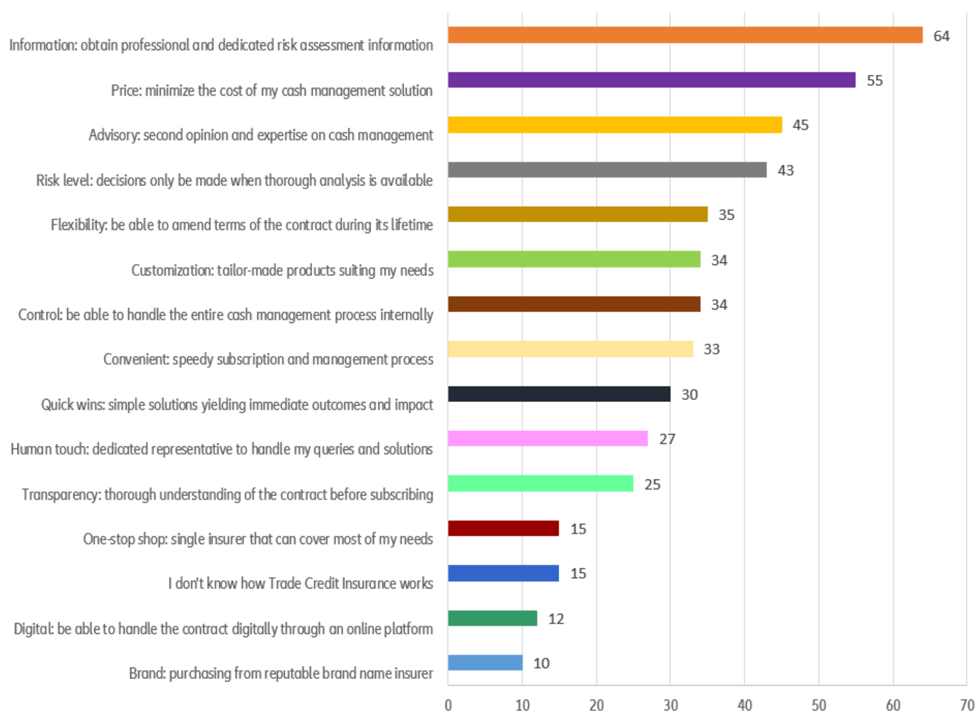
QUESTION 3: WHAT IS YOUR PREFERRED CHANNEL TO PURCHASE TRADE CREDIT SOLUTIONS?



In Europe where TCI is a common risk mitigation tool, with approximately market penetration of 15%, in Asia Pacific, it is approximately 4-5% in developed markets such as Hong Kong, Singapore and Japan, and approximately 3% in remaining markets.

Banks, being trusted institutions for banking and financing needs, there is no doubt it is the preferred channel to purchase trade credit solutions by 33% of the respondents. Although banks are distributors of TCI, it is important to note that, they are not the underwriters of the risk. Having no channel preference, brokers and insurance sales representatives/agents are equal second at 16% each.

QUESTION 4: WHAT ARE THE 3 MOST IMPORTANT FEATURES YOU LOOK FOR IN TRADE CREDIT INSURANCE AND PROVIDER?



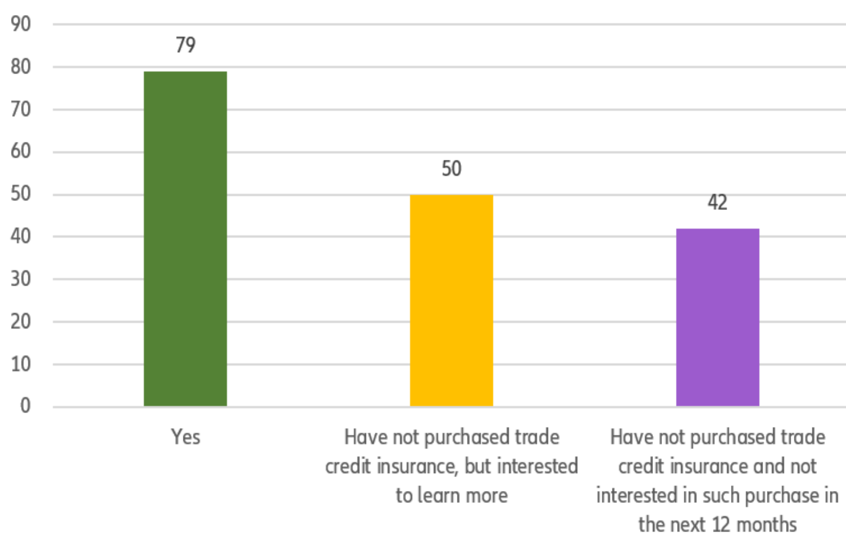
According to our 171 respondents, the three most important features which they look for in TCI and provider are:

- **Information:** Obtain professional and dedicated risk assessment information (37%)
- **Price:** Minimize the cost of my cash management solution (32%)
- **Advisory:** Second opinion and expertise on cash management (26%)

There is no doubt that information is king today. It is evident that to obtain professional risk information and advice is the number one priority for our respondents. Many advisors warn businesses to be on their guard for over-trading and it remains a double-edged sword when expanding business operations, geographical scope and customers. The harder the business work to win new customers, the better the product and the larger the order. Turning down attractive opportunities could be difficult; this is where TCI comes in to protect the cash flow, and give the business greater freedom to trade by way of providing information of the credit rating of these new customers and cash management advice.

To access to three free buyer checks conducted by our risk experts, please click on this link: https://www.eulerhermes.com/en_GL/APAC/ares.html

QUESTION 5: DO YOU HAVE A TRADE CREDIT INSURANCE SOLUTION PROVIDER?

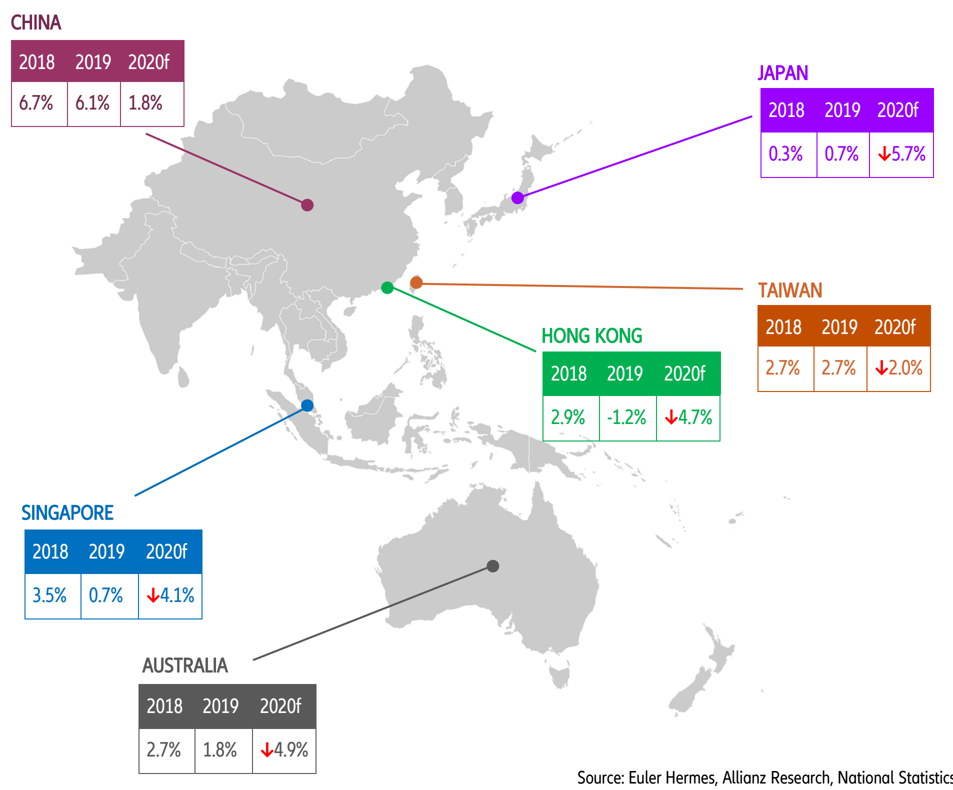


46% of respondents have TCI in place. Of which, 67% could be considered SMEs (annual turnover EUR50m or less). This shows the level of sophistication of our respondents who believe that their businesses can benefit from good credit management.

Of the remaining respondents who do not have TCI, 54% of them are interested in finding out more. With most businesses selling on open account terms to their customers, TCI could bring many benefits, such as:

- **Predict:** Gain access to comprehensive and up to date information on the changing risk within the business' customer portfolio. Track and manage customer orders and payments more confidently
- **Protect:** Trade receivables are protected, therefore ensuring cash flow and profit line will be more secured. This strengthens the financial position of the business, especially to banks, auditors and investors
- **Grow:** Identify opportunities for growth and expansion. Release resources to develop sales with new customers and in new markets

KEY MARKETS GDP GROWTH ANALYSIS AND OUTLOOK



Source: Euler Hermes, Allianz Research, National Statistics

CHINA

Our latest 2020 GDP growth forecast for China now stands at +1.8%, revised down from +4.0% previously (after +6.1% in 2019), factoring in the impact of the latest Covid-19 news and measures domestically and abroad. While high frequency data suggests that production is still 15-20% below its usual level (even lower for consumption), we now expect a full resumption of economic activity in June 2020. The recovery of the Chinese economy should become more visible in H2, helped by an accommodative policy stance, particularly on the fiscal side. We expect supportive fiscal measures in 2020 to account for 6.5% of GDP, after 3.3% last year. On the monetary side, the PBOC has injected 2.8% of nominal GDP worth of liquidity, with a particular focus for SMEs. We expect further injections worth at least 1% of GDP. Credit conditions should also be eased further.

HONG KONG

The regional trade hub had entered into a technical recession since Q3 2019 and it is likely to carry into this year. The global pandemic is adding another layer of pressure on an economy that was already under the double whammy of the US-China trade feud and social protests internally. In this context, Hong Kong is likely to experience its first fiscal deficit in 2020 in more than fifteen years, with fiscal easing exceeding 4.0% of GDP according to our estimates. We expect the special administrative region's GDP to decline by -4.7% in 2020.

SINGAPORE

Economic momentum going into 2020 was positive, up until it was derailed by the global pandemic. After successful containment in the initial phase of the epidemic, authorities are now enforcing stronger confinement measures against the new wave of Covid-19 infections (until 1 June). Strong policy support has been put in place, with fiscal easing exceeding 11% of GDP according to our estimates. Nonetheless, the island nation will not manage to avoid a full-year recession, and we expect its GDP to decline by -4.1% in 2020.

TAIWAN

The Taiwanese economy had ended 2019 on a relatively solid note, and containment of Covid-19 so far appears to be successful. However, Taiwan's exposure to external demand given its position in global supply chains means that the global pandemic is taking a hit on its economic activity. For example, exports to mainland China represent 16% of Taiwan's GDP. In this context, authorities are planning fiscal easing nearing 2% of GDP in 2020 according to our estimates (slightly more than half the easing in 2009). We expect Taiwan's GDP to decline by -2.0% in 2020.

JAPAN

The Japanese government declared on 16 April that the state of emergency was extended from seven prefectures to the whole country, until 6 May. The country is facing the global pandemic in already fragile conditions, as growth momentum was weakened by the VAT tax hike and super typhoons last autumn. The government has announced forceful policy response, with fiscal easing in 2020 nearing 13% of GDP according to our estimates (compared to nearly 6% in 2009). Our latest projection indicates Japan's GDP to decline by -5.7% in 2020 (vs. -2.0% expected in late-March).

AUSTRALIA

Stepping into winter months, and with confinement measures may not be lifted quickly despite promising downwards trend in infections recently, we have also significantly downgraded our forecasts for Australia. The policy response in Australia has been particularly strong though, with fiscal easing at 12% of GDP, and the central bank resorting to unconventional monetary policies. We are expecting Australia's GDP to drop by -4.9% in 2020.

ABOUT EULER HERMES

MARKET PRESENCE

100+ year invaluable expertise

66,000+ clients around the world

52 countries

35% market share

OPERATIONAL EXCELLENCE

EUR 475 million operating profit

1,700+ claims indemnified per week

AA rating from Standard & Poor's and Aa3 rating with stable outlook from Moody's

EUR 950 billion business transactions protected globally

EULER HERMES ASIA PACIFIC

Number 1 trade credit insurer in Asia Pacific

Tier-1 Economic Research Department supports our risk decision

Monitor 120,000+ companies in the risk database

Cover EUR 100+ billion business transactions within the region

Data as of Dec 2019

These assessments are, as always, subject to the disclaimer provided below.