

2 Diversified survey distribution of participants among sectors and business sizes

3 Companies feel comfortable with demand prospects

3 Sales on credit remain widely used

4 Payment delays are commonplace for Polish companies

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POLAND PAYMENT SURVEY: PAYMENT DELAYS PERVADE POLISH CORPORATES

THE COFACE ECONOMIC PUBLICATIONS

by Grzegorz Sielewicz, Coface Economist



Coface's first study on payment experiences in Poland was carried out during a period of temporary slowdown in the economy. This has mainly been the result of the shift to the new EU budget and the reluctance of companies to invest in fixed assets during 2016. In comparison to 2015, Coface estimates that GDP growth was 1.2 percentage points lower in 2016, at around 2.7%. The payment survey investigated the payment behaviour of corporates, which is mirroring both the economic situation and the business environment.

Our analysis covers a wide range of company sizes and sectors. Sales on credit are used extensively, with most companies offering relatively short payment periods of up to one month. The bulk of corporates are faced with overdue, some of which are long and unlikely to be paid. Long outstanding receivables are lowering companies'

profits and, according to our payment survey, nearly one in five companies had to write off at least 5% of its annual revenues, due to unpaid receivables. Corporates are therefore becoming more aware of risk management strategies. Many have put into place dedicated credit management teams, are monitoring payments on a constant basis and are using the services of external credit management providers.

The Coface study shows that Polish companies are experiencing average payment delays of 51.5 days. This is 10 days longer than that encountered by German companies (according to our recent payment survey on the German market). The Polish average is the combination of the widely diversified experience of various sectors. The retail sector fares the best, with overdues of only 19.3 days. Our sample indicates that transport companies are suffering the most, with payment delays that are over double the average, at 112.9 days. The

construction sector also faces challenges, with hypothetical average delays of nearly 84 days, even though it offers generous credit periods. Long overdues are already accounting for much of construction companies' revenues and most of them expect that overdues will rise even more over the following months. This scenario of weak payments corresponds to our sector risk assessment for construction, which we already decreased by a notch to 'very high risk', in November 2016.

Contrastingly, nine of the 12 sectors surveyed anticipate that the amount of outstanding receivables will decrease over the following months. This corresponds to a gradual improvement in the Polish economy, which is expected to return to diversified and balanced growth, particularly during the second half of 2017, to reach GDP growth of 3.1% for the entire year. Payment delays should become less of burden for Polish companies during the course of this year, although they will remain fairly commonplace.

DOSSIER



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“While, sales on credit are commonly used by Polish companies and many offer generous payment terms, they are still unable to avoid delays. Coface’s survey reveals that nearly a quarter of Polish companies are faced with overdue that exceed due dates by at least three months.”

1

DIVERSIFIED SURVEY DISTRIBUTION OF PARTICIPANTS AMONG SECTORS AND BUSINESS SIZES

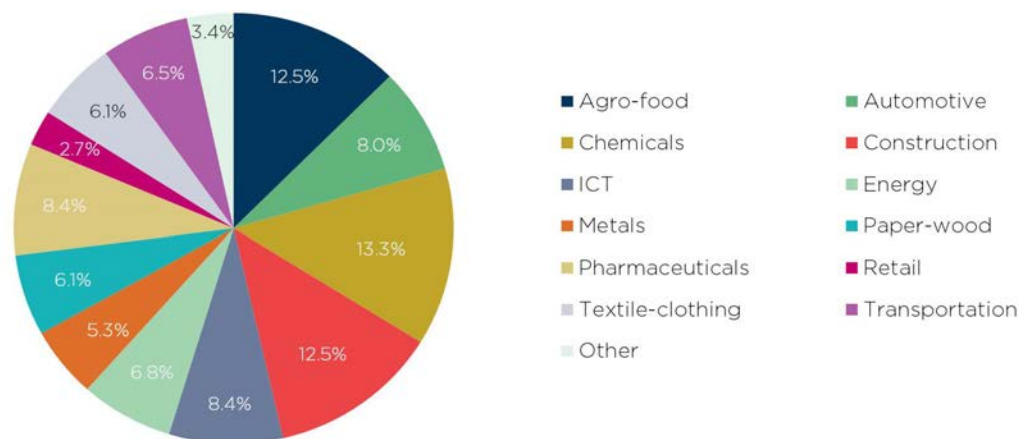
A total of 267 companies, from a variety of sectors, participated in Coface’s first study on payment experiences in Poland (payment survey). The survey was conducted in November and December 2016. The majority of companies that participated operate in a B2B (business to business) format, although for 6% of respondents, B2G (business to government) is their main source of revenues. Nevertheless, the data collected confirmed that most of the surveyed companies work with both business and state clients. They were therefore able to share their payment experiences of receivables from the private and public sectors. Among the surveyed companies, 32% represent manufacturing industries, 35% the trade sector and nearly 33% the services sector. In more detail, the chemicals, construction and agro-food sectors are strongly represented in the survey,

each with a 13% share. They are followed by the ICT (8.4%), pharmaceuticals (8.4%), automotive (8.0%), energy (6.8%) and transportation sectors (6.5%). The full list of core business sectors in the survey are shown in chart 1.

In terms of company sizes in the payment survey, medium sized and large companies each accounted for 35% , while small companies took a 25% share and micro entities represented 5%. The sample covered by Coface shows that the bulk of companies mainly generate their turnover on the Polish domestic market. Only 9% generate 50% or more of their turnover from export business. Nevertheless, for one in five respondents, exports account for at least 30% of sales, making their dependence on external demand relatively strong.

Chart 1:

Sectors of surveyed companies



Source: Coface Payment Survey

2 COMPANIES FEEL COMFORTABLE WITH DEMAND PROSPECTS

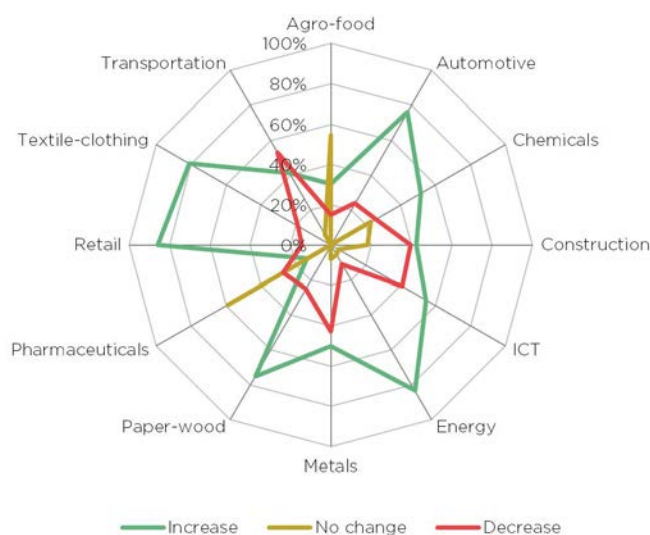
Although companies did feel the effects of the slowdown in Poland's economic growth last year, it has not had devastating results. While almost a half of the surveyed companies recorded decreased sales of products and services over the last six months, only 30% of businesses noted lower profitability. Most of the respondents believe that the slowdown is a short-lived one, with 40% expecting to see an increase in sales over the next 6 months and higher profitability anticipated by 54%. In a sectorial split, an improvement in sales is particularly expected by the retail, energy, textile-clothing and automotive sectors. By contrast,

the transportation, metals, ICT and construction sectors forecast lower sales in the next 6 months. While most sectors experienced lower turnover during the previous 6 months, the assessment for the future is brighter. The transport and pharmaceutical sectors are the only ones where there are more companies that anticipate a fall than an increase in sales over the coming months.

Despite Poland being the largest economy in the CEE region, with a strong base of potential consumers and increased growth expected this year, companies are widening their scope from just the domestic market. The exports to GDP ratio has been gradually rising in recent years, to pass the 50% mark last year. The payment survey reveals that 52% of companies intend to develop Poland as their main market in the next 6 months. The remainder will focus on foreign markets, particularly in other EU countries (41% of respondents), such as Germany and the United Kingdom (7.4% and 6.8%, respectively), as well as other CEE countries including the neighbouring Czech Republic and Slovakia (7% each). Despite the contraction of Russia's economy and the official embargo imposed on selected merchandise, this market is still viewed as an opportunity by 11.5% of the companies interested in foreign expansion. These include transport companies and other sectors whose services can usually command a more profitable market in Russia than in Western Europe. The increased openness of Polish businesses to overseas operations is confirmed by their willingness to expand to foreign destinations such as in Asia and other 'global locations', as indicated in the survey.

Chart 2:

Future sales by business segment



Source: Coface Payment Survey

3 SALES ON CREDIT REMAIN WIDELY USED

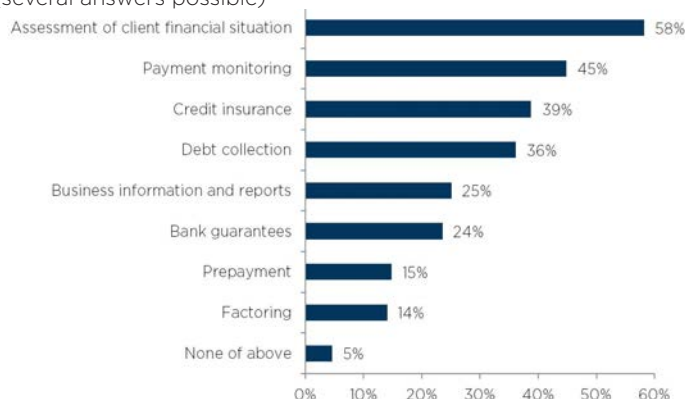
Granting of credit periods is a common practice among Polish businesses, as indicated by over 45% of the surveyed companies. Nearly 12% of respondents stated that they have confidence in their counterparts and are therefore willing to offer them sales on credit. Other reasons for the wider use of credit periods include client requests for sales on credit, market competition and the possibilities for using third parties to mitigate risks (such as credit management services). Polish companies are, however, aware of the risks related to offering sales on credit. Most of the companies surveyed have written terms and conditions of business related to credit periods.

Only 1.5% of companies never use such terms, while 62% of companies always do. In most cases, credit management issues are managed by a dedicated credit management department (43% of surveyed companies), although these tasks can be managed by other departments, such as finance (34%), or sales (19%).

The most widely-used tools for mitigating payment risks include assessments of the counterpart's financial situation, payment monitoring, credit insurance and debt collection. Other precautions taken are listed below, in chart 3.

Chart 3:

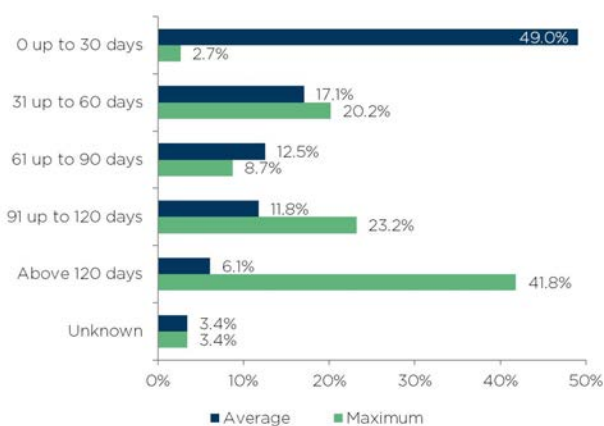
Precautions undertaken by companies to protect against payment risks (several answers possible)



Source: Coface Payment Survey

Chart 4:

Average and maximum credit periods (shares in total)



Source: Coface Payment Survey

In the breakdown of credit periods granted by Polish companies to their clients, short periods predominate. Almost half of the surveyed companies impose average credit periods of up to 30 days. 66% of companies offer credit periods of up to 60 days.

While the shortest terms account for the biggest share in average credit periods, the case for maximum credit periods is different. 23% of companies indicated that they offer maximum periods of 91 to 120 days, while 42% offer credit periods exceeding 120 days.

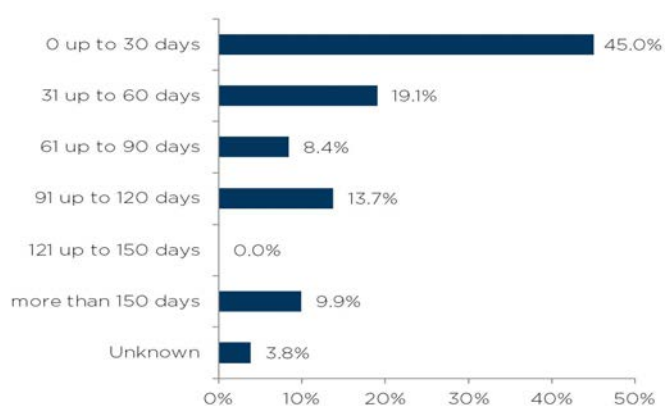
In a sectorial split, the most restrictive sectors (those with a majority of sales on the shortest credit periods, of up to 30 days) are textiles-clothing (81% with the shortest credit periods), agro-food (76%), retail (71%), automotives (67%) and energy (67%). Sectors which are the most generous in offering long average credit periods include transportation (53% with credit periods of more than 90 days), metals (43%) and construction (30%).

4

PAYMENT DELAYS ARE COMMONPLACE FOR POLISH COMPANIES

Chart 5:

Average payment delays (shares in total)



Source: Coface Payment Survey

The Polish economy's good fundamentals and fair (although flattening last year) growth have not been sufficient to make business conditions shine. Payment delays are standard practice and most (64%) experience payment delays of up to 60 days, with the share of delays exceeding 90 days at nearly 24% and long overdues of above 150 days at nearly 10%.

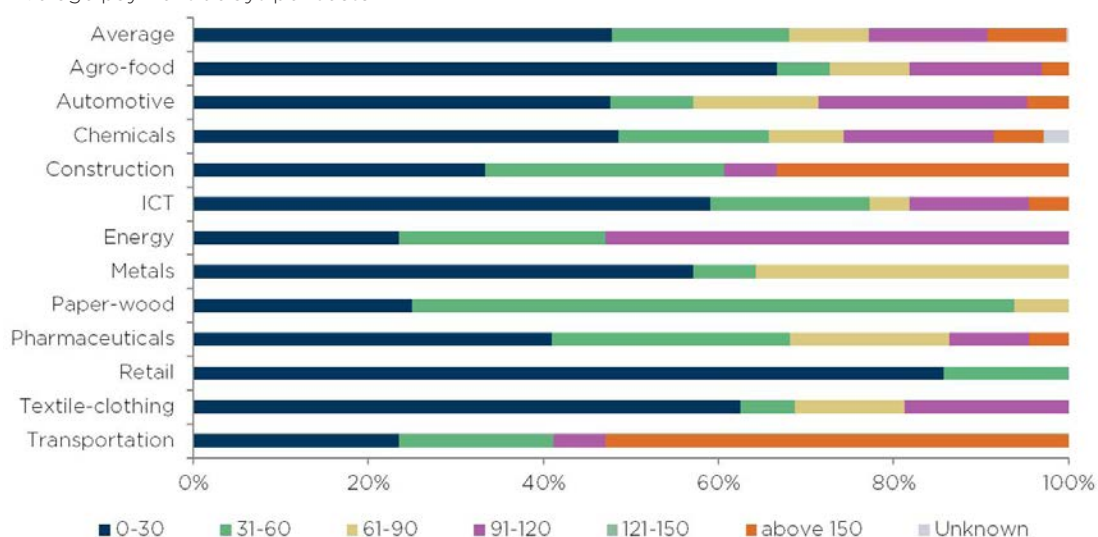
Coface's experience has shown that around 80% of outstanding receivables will not be fully paid at all, once the payment delay exceeds six months. Almost 4% of Polish companies report this type of long outstanding receivables. Moreover, these overdues do not just concern one-off invoices. Receivables with payment dates of more than 6 months old account for a sizeable share of companies' turnovers. These overdues represent more than 10% of turnover for 20% of the surveyed companies.

When analysing sectors, long overdues are a particular challenge for the construction and transport sectors. Both sectors suffer from a substantial part of their turnover being engaged in overdues. Receivables overdue by more than 6 months account for at least 10% of turnover in the energy (50% of surveyed companies),

construction (42%) and pharmaceutical (32%) sectors. These overdues are having consequences for companies' liquidity situations. 82% of companies with outstanding receivables experienced cash flow difficulties (and of these, 18% of respondents reported that this is an ongoing problem for them).

Chart 6:

Average payment delays per sector

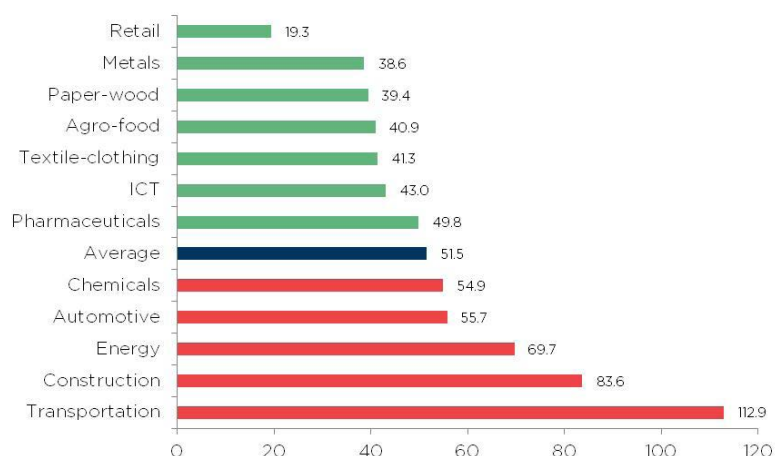


Source: Coface Payment Survey

As performed for the Coface Germany Payment Survey¹, we have calculated hypothetical terms of payment delays in respective sectors. The following assumptions were made: the simple mean values used for the individual time categories are 15, 45, 75, 105 and 135 days, while a hypothetical average value of 180 days is used for the category of over 150 days. These are the bases for the calculation of a weighted average, according to response frequencies in the individual categories. This method leads to an average value of 51.5 days for all companies surveyed. In the subsequent step, values are compared for all sectors.

Chart 7:

Hypothetical terms of payment delays (figures in days)



Source: Coface Payment Survey

Some sectors are suffering from delays in payments which are significantly above the average. First and foremost among these is the transportation sector, with payment delays of more than double the average in our sample, at 112.9 days. The construction, energy, automotive and chemicals sectors are also experiencing above average payment delays. The problem of outstanding receivables is particularly detrimental to the transportation and construction sectors, as they not only experience the longest delays but also offer the most generous credit periods. In contrast, retail is outperforming other sectors in terms of payment delays, as it reports average overdues of "only" 19.3 days.

By comparison, companies in Germany report payment delays of 41.5 days (10 days shorter than Polish ones). The poorest situation in Germany is experienced by the transportation and mechanics & precision industries, although the delays are much shorter than in Poland, at 55.2 and 60 days, respectively. By contrast, chemicals, oil & minerals report the shortest delay in payments, at 30.7 days.

Taking into account all of the above indicators relating to outstanding receivables (payment delay structures, sectorial split of overdues, share of longest delays in company turnovers and the generosity of credit periods), the construction sector represents a significant risk. This corresponds to Coface's sectorial risk assessment² which has ranked the construction sector at the lowest notch of very high risk since November 2016. In line with improvements in funding from

¹Coface Panorama: Germany Corporate Payment Survey 2016, August 2016

²Coface Panorama: Barometer of sector risks in the world, November 2016

the current EU budget (as mentioned above), the construction sector should enjoy an improved business environment and liquidity risks should thus start to decrease. The return of interest from the private sector to invest in fixed assets would also help to support the construction sector, as investments in buildings and structures fell last year. Although 2017 should show some improvements, these will probably not be perceived before the second half of the year.

services (such as debt collection and external lawyers), as indicated by 44% of the surveyed companies. Internal resources for monitoring and debt collection were used by 40% of companies, while arbitration and mediation actions were practiced relatively rarely (by 9% of companies).

The level of outstanding receivables is expected to stabilise. In terms of future anticipations regarding overdues, almost half of the companies questioned do not expect to see changes in the next six months. There are a greater percentage of companies (29%) that expect to see a decline in outstanding receivables than those who forecast that they will increase (22%). Among larger companies, 37% anticipate a growing number of overdues, while 37% expect no change. Large companies, thanks to their size and strong negotiating power, benefit not only from being offered longer credit periods but also extended terms of paying their liabilities. The sectorial split indicates that some sectors will suffer more than others from overdues over the following months. In the construction sector, 55% of companies expect to see increasing overdues, while only 12% anticipate a decrease. It would appear that the most difficult period has passed for the construction sector, but the improvement will be gradual. The reluctance of companies to make fixed investments (including new constructions) is not expected to deepen, there are still good developments on the housing market and EU co-financed investments are likely to rebound.

It will, however, take time for the latter to boost the dynamics of the construction sector (which Coface anticipates will be in mid-2017) and overall economic activity. We therefore expect that the financial results of construction companies are likely to reflect this improvement closer to the year-end. A relatively significant share (39%) of companies in the transport sector expect that their overdues will rise and only 8% believe they will decrease, but over half do not anticipate any change. The transport sector is much more dependent on external factors than the rest of the economy. Polish transport companies are the biggest carrier of international haulage in the European Union. Their main concerns are related to the weaker dynamics of global trade, the protectionist measures on road transport that have been implemented by some Western European countries and the growing difficulties in filling job vacancies. These uncertainties will continue to weigh on the sector in 2017 and even the environment of relatively low oil prices (subject to fluctuate in the course of year) is not sufficient to compensate for these challenges. In contrast, segments which expect the strongest falls in outstanding receivables over the next 6 months include the textile-clothing, metals and automotive sectors. This correlates with Coface's sector risk assessments, which indicate lower risks for similar sectors, particularly automotives. The exception is the metals sector, which despite a potentially lower amount of overdues is still faced with a challenging global situation for metals - and the improvement will only be gradual.

Chart 8:

Poland: Coface Sector risk assessments



Source: Coface

Companies interviewed in our survey also shared their views on the reasons for overdue payments from their clients. The respondents noted that payment delays are mainly caused by their clients' financial difficulties (such as cash flow problems, or lack of access to financing), fraud, immoral behaviour and customers' own financial management problems (such as poor collection of receivables). As a result, companies have had to introduce effective actions against debtors. These actions have mainly had recourse to third party

Chart 9:

Expected changes in the size of outstanding receivables over the next six months (figures in balance points)



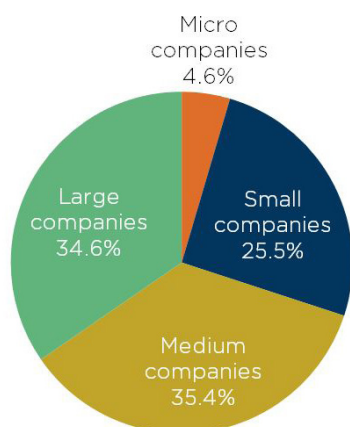
Source: Coface Payment Survey

5 APPENDIX

Who are our respondents?

Chart 10:

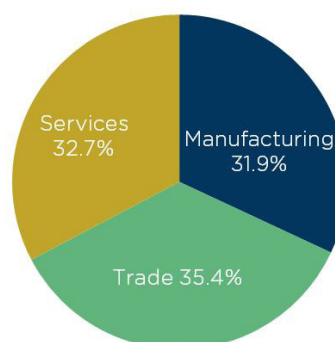
Size of companies by turnover



Source: Coface Payment Survey

Chart 11:

The main business activity

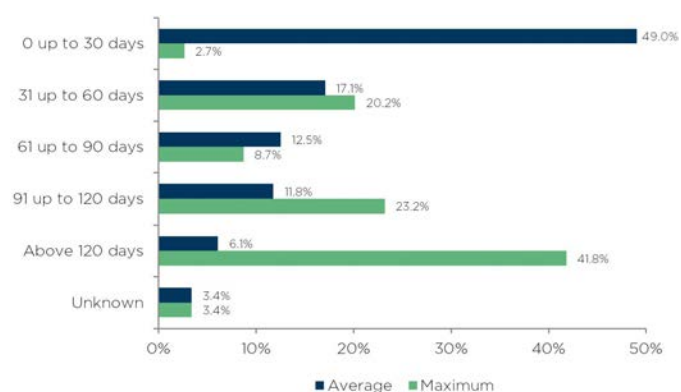


Source: Coface Payment Survey

Payment periods

Chart 12:

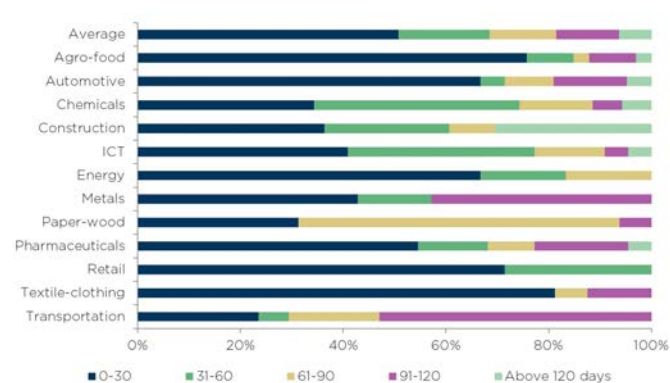
Average and maximum credit periods (shares in total)



Source: Coface Payment Survey

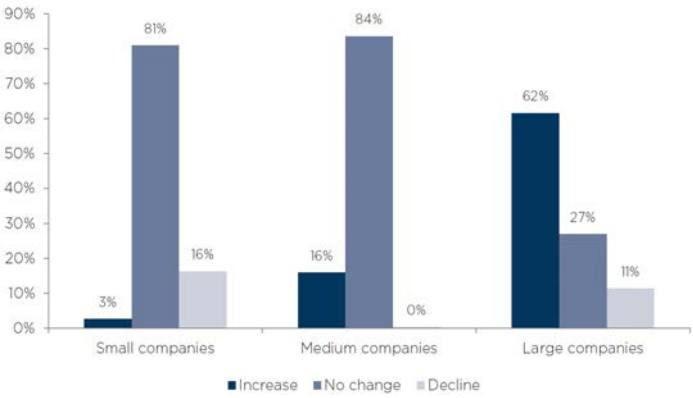
Chart 13:

Average credit periods in sectors



Source: Coface Payment Survey

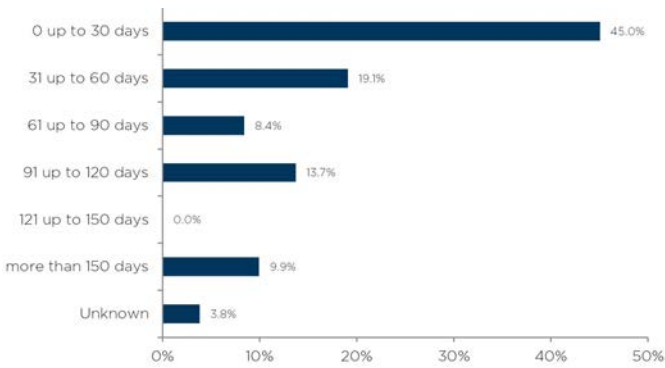
Chart 14:
Expected developments in credit periods, by size of companies' counterparties



Source: Coface Payment Survey

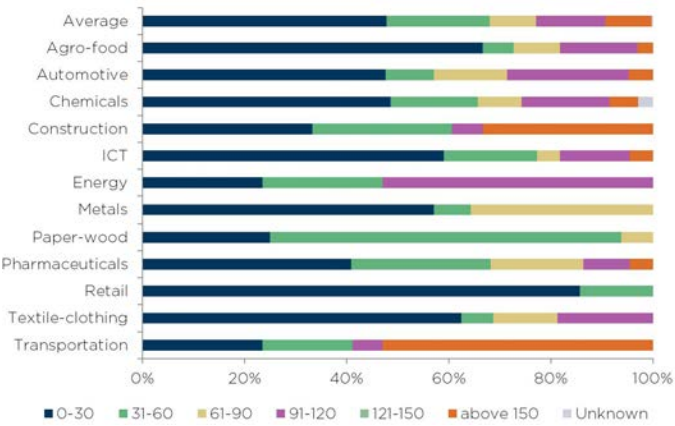
Payment delays

Chart 15:
Average payment delays in last six months



Source: Coface Payment Survey

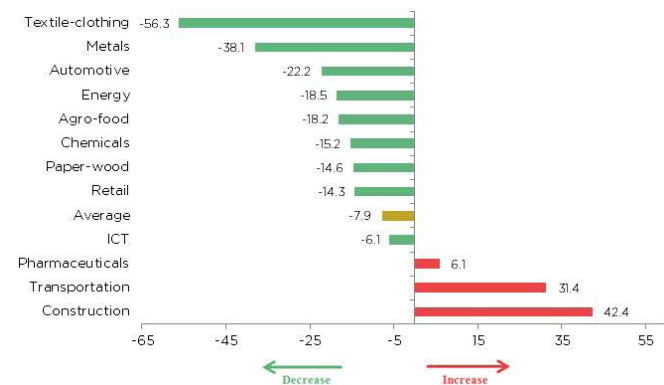
Chart 16:
Average payment delays in last six months, per sector



Source: Coface Payment Survey

Chart 17:

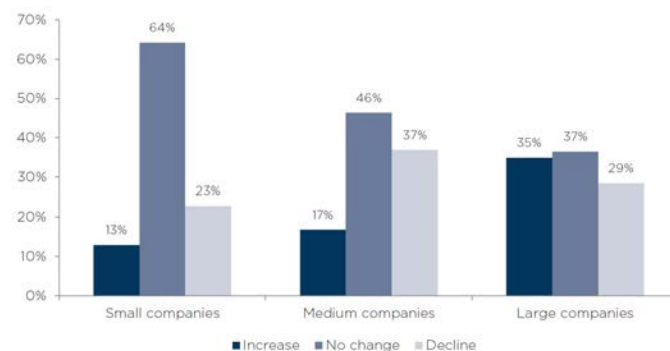
Expected changes in the size of outstanding receivables over the next six months, per sector (figures in balance points)



Source: Coface Payment Survey

Chart 18:

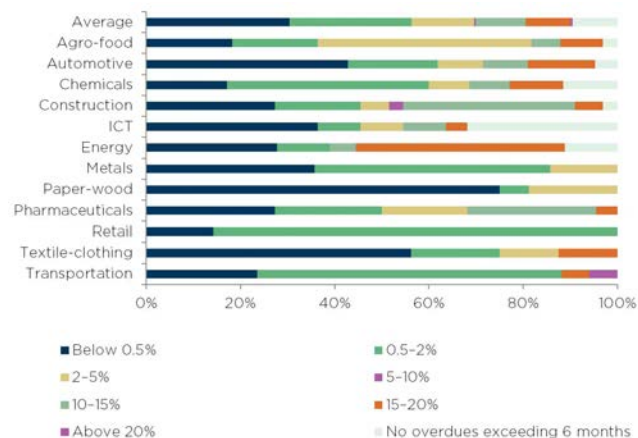
Expected changes in the size of outstanding receivables over the next six months, by size of company's counter-parts



Source: Coface Payment Survey

Chart 19:

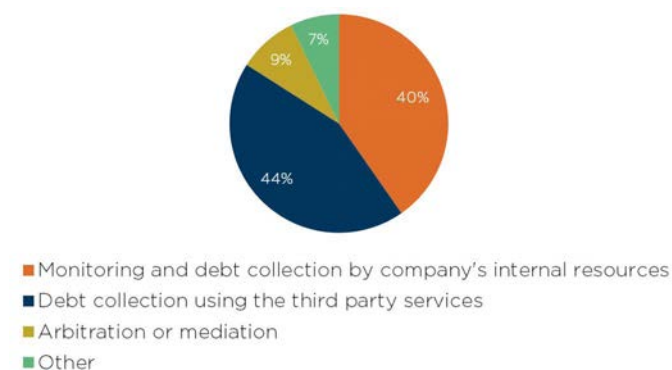
Level of outstanding receivables owing over six months, as a percentage of total annual turnover



Source: Coface Payment Survey

Chart 20:

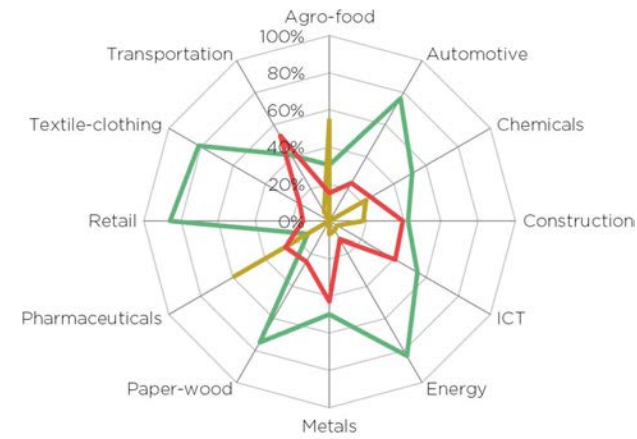
The most effective action in the case of non-payment



Source: Coface Payment Survey

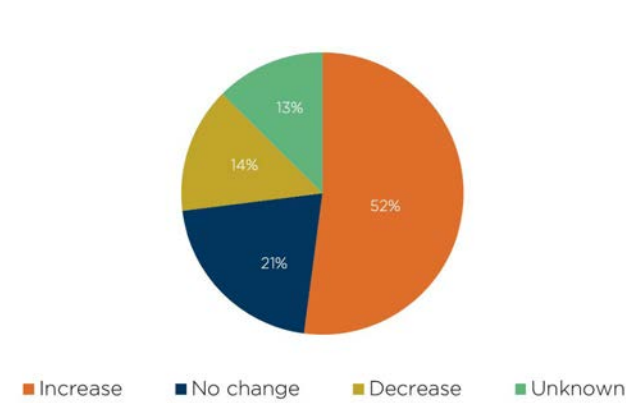
Expectations of business and economic environment developments

Chart 21:
Future sales by sectors



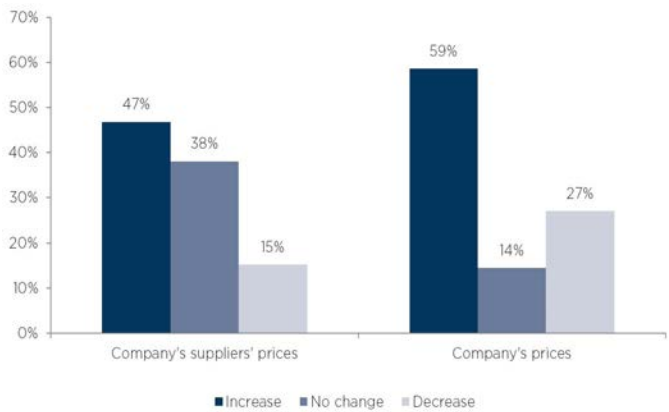
Source: Coface Payment Survey

Chart 22:
Expected workforce changes



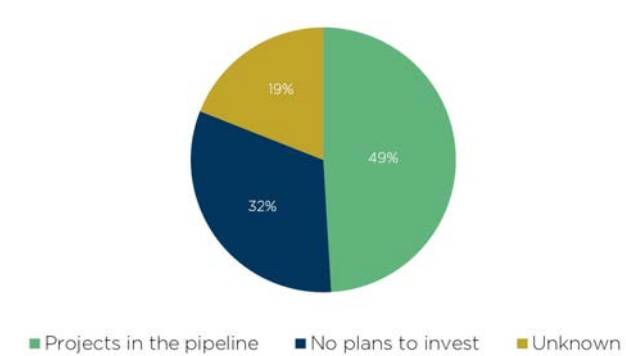
Source: Coface Payment Survey

Chart 23:
Expected price changes



Source: Coface Payment Survey

Chart 24:
Plans to expand in the next six months



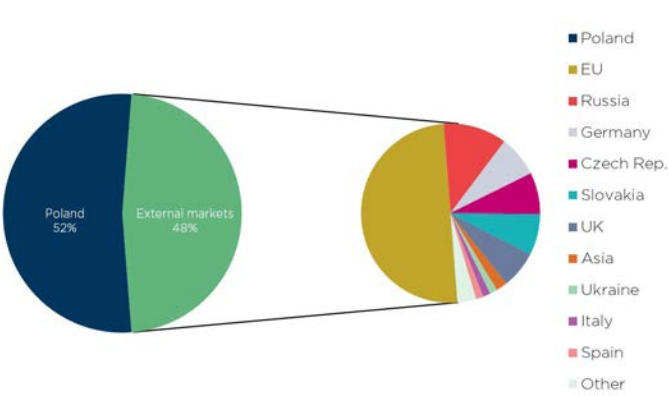
Source: Coface Payment Survey

Chart 25:
Factors that might limit the expansion of business (several answers possible)



Source: Coface Payment Survey

Chart 26:
The destination of biggest potential to expand



Source: Coface Payment Survey

RESERVATION

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