

Industry match-ups



Italy versus Ireland

European football championship 2016



Sector playing field: chemicals/pharmaceuticals
industry – Match preview

4:4*

* Comparison of Atradius credit risk situation/business performance outlook for the industry
(Ranking from one ball (very poor) to five balls (very good))



Squad performance for the tournament – check

Italian chemicals industry

2015	2016f	2017f
0.8	1.1	1.2
2.5	2.3	1.7

1.2
high

Irish chemicals industry

2015	2016f	2017f
7.8	4.8	3.6
9.7	5.2	3.1

6.4
very high

Country
GDP growth

Chemicals sector value
added growth (%)

Average chemicals sector growth
over the past 3 years (%)

Level of competition

Sources: IHS, Atradius

Finally scoring at home

In 2015 Italian chemicals/pharmaceuticals production increased 1.3%, to EUR 82 billion. Exports increased 4.2% in volume, but at last domestic demand started to contribute positively (up 2.5 % in volume). However, demand from Italian buyers still remains uneven: while demand grew from automotive and consumer goods, textile and construction demand are still weak. In 2016 production growth of 1.4% is expected, with domestic demand increasing.

The margins of many chemicals/pharmaceuticals businesses remain squeezed by high energy and labour costs, despite lower oil prices. Italian specialty chemicals producers have not benefitted from the significant commodity price decrease.

Competition in the low value added chemicals segment is high due to overcapacities and modest domestic demand, still below the pre-crisis level. Competition in the high value added segment is lower thanks to high entry barriers.

The gearing of businesses in this industry is rather low, as they usually have above average solvency ratios and good margins, in general higher than the average for Italian manufacturers, allowing regular debt repayment.

All top pharmaceuticals players in the team

The Irish chemicals/pharmaceuticals sector is mainly dominated by companies active in both pharmaceutical ingredient (API) manufacturing and dosage form manufacturing. Nine out of the top ten global pharmaceuticals companies are located in Ireland, making it the largest net exporter of pharmaceuticals in the world.

The chemicals and pharmaceuticals segments combined account for about 50% the value of products manufactured in Ireland and account for 60% of Irish exports.

The demand situation is benign, with new drugs being developed in Ireland from R&D now coming on line for sale. Sales of other chemicals/pharmaceuticals products manufactured in Ireland remain robust. Businesses' margins are expected to remain stable.

The sector is largely reliant on its own finances or external investors for monies. Some companies also receive government funding for certain products. Companies are usually highly profitable, with consistent and stable growth.



Players to watch

Italy

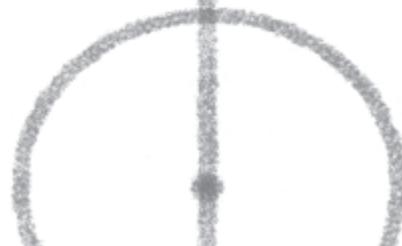
- Fine and specialty chemicals businesses (paints, inks and adhesives, detergents and cosmetics) excel due to a high export share, lower impact of raw material prices and energy costs compared to the basic chemicals segment, and good margin ratios.
- Pharmaceuticals producers benefit from a high export share of sales (more than 70%). High margins allow consistent investments in research and development.



Ireland

- Ireland is a growing centre for the manufacture of biopharmaceuticals – second in importance only to the US.
- Net selling value of chemical products (not including the pharmaceuticals industry) increased in value from EUR 11.1 billion in 2013 to EUR 14.6 billion in 2014, a year-on-year increase of 31.5%.

-
- Compared to manufacturers, chemicals wholesalers and retailers usually have a lower solvency and higher gearing ratios to finance the working capital.
 - Pharmaceuticals retailers and pharmacies are affected by overcapacities and partly by long payment duration from public bodies.





Major strengths and weaknesses

Italian chemicals/ pharmaceuticals industry

High degree of internationalisation

The sector records above average solvency and margin ratios compared to Italian manufacturing

The industry has the lowest bank bad debt ratio compared to other Italian sectors

The industry benefits from the recovery of the Italian economy

Good payment track record



Irish chemicals/ pharmaceuticals industry

High productivity levels with consistent growth and investment

Highly qualified workforce with ability to adapt

Specific industry initiatives offered by the government and industry to encourage research and innovation

Strong international reputation for developing new products and fully adhering to all national and international regulations

Low levels of insolvencies as a large number of companies based in Ireland are big

High energy and labour costs affect margins

Problems remain for chemicals producers in the fertilizer segment dependent on domestic construction, textiles and leathers

Increasing competition, especially from Asia



High cost base with both energy and labour costs higher than the EU average

High dependency on inward investment from multinational companies (particularly from the US & UK) rather than home-grown entities

Global downturns or recessions in large economies such as the US and UK can have a disproportionate effect on the industry in Ireland

Increased competition from China and the US due to lower oil and production prices



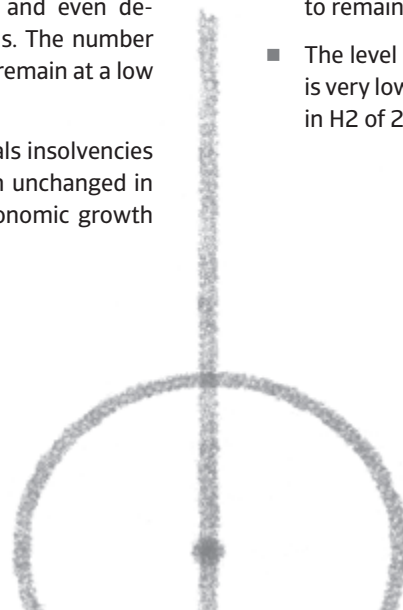
Fair play ranking: payment behaviour and insolvencies

Italian chemicals/ pharmaceuticals industry

- On average, payments in the Italian chemicals sector take around 60 days.
- Payment experience is good, and the level of protracted payments has been low over the past couple of years. Payments generally occur on time.
- Non-payment notifications are low, and even decreased further in the last six months. The number of non-payment cases is expected to remain at a low level in H2 of 2016.
- The level of chemicals/pharmaceuticals insolvencies is low, and this is expected to remain unchanged in H2 of 2016, sustained by further economic growth in Italy.

Irish chemicals/ pharmaceuticals industry

- On average, payments take around 30 days.
- Payment experience is very good, and the level of protracted payments has been low over the past couple of years.
- Non-payment notifications are low, and are expected to remain at a low level in H2 of 2016.
- The level of chemicals/pharmaceuticals insolvencies is very low, and this is expected to remain unchanged in H2 of 2016.



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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
www.atradius.com