PRESS RELEASE

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Domestic cereal crop sector - increasing revenues, declining profits

According to the financial data available for 2014, all companies operating within the cereal cultivation, vegetable and plant oil seeds sector registered significant revenue growth, without higher profits. Investment in new technologies are needed given that Romania registers a productivity three times lower than the EU average for this sector. Although the pace of technology assets exceeded more than twice the dynamic wear for the third consecutive year, the impact is not visible in terms of economic performance. Analyzed companies favored supplier's credit, the average pay increased to 269 days, while the claims are collected at 153 days.

According to financial statements published by the Ministry of Finance, in 2014, the companies with the core activities of "Growing of cereals (except rice), leguminous plants and oil seeds plant" generated a **RON19.09 MLD** turnover, up to 24% YoY. 40% of the revenue is generated by the advance of new companies registered during 2014, and 50% of the increase is related to companies with turnover above EUR 1 MIL. In this context, only 2% of companies that operate in this sector reported lower revenues in 2014.

The number of companies with turnover in excess of EUR 1 MIL is growing

- In 2014, 636 companies from this sector registered an annual turnover more than EUR 1 MIL, an increased level compared to 2013; 555 companies. This segment represents about 9% of the firms in the sector, but generates about 72% of the revenues registered;
- Approximately 14% of the companies that submitted financial statements for 2014 did not conduct any activity;
- In 2014, nearly half of the active companies registered a turnover of less than EUR 100K/ year but the share values in the total turnover of this segment is only 2%.

Profitable companies in Romania, below the level of the Central and Eastern Europe

- The consolidated net result for 2014 for this sector was 4.7%, a decreasing dynamic from the registered level in the past, approximately 5.8% for 2013 and 8.9% for 2012;
- The operating margin decreased from 13%, the level registered in 2012, to 9.1% in 2013. Even so, the average in Central and Eastern Europe in the analyzed sector was only 6.5%, Romania being surpassed only by Bulgaria and the Czech Republic;
- 44% of the companies that operates in this sector reported a deterioration in net earnings during 2014 YoY, 20% of them fell from profit to loss;

- This dynamics is amid huge debts incurred by domestic companies, which has a total debt level of 65%, compared to the regional average level of only 45%. Romanian companies registered the highest level of regional debts.

Productivity in agriculture, three times lower than the EU average

- Romanian companies registered the highest level of investments in fixed assets and land; their share in total fixed assets being 23%, two times higher than the average regional level;
- The average productivity in agriculture (gross value added to the number of hours worked annually), is three times lower in Romania than the EU average. From this point of view, the dynamic of the very high investment in Romania is justified by the need to retool and the efficiency of this sector. Despite this, the results (declining profits) and the unsustainable way of financing such investments generates major pressures on the liquidity of these companies, amplifying the risk of insolvency.

Agro companies registered the slowest level of debt collection

- The financing method of such investments achieved by domestic companies is not sustainable. The share of short-term debt in total loan capital has increased to over 70%;
- Despite the rise in the average debt collection period to 153 days (the highest level in CEE the liquidity situation has marginally improved, the coverage of short-term debt by net cash increasing to 11%. However, **the conservation power of the liquidity** is not sustainable on long term, given that suppliers are paid very late;
- The average duration of short-term debt payment increased in 2014 to 269 days, an increase of 54 days from 2012, given that the cumulative rotation of receivables and inventories (operational cycle) increased by 22 days. Basically, the extension of short-term debt payment (54 days advance) with 32 days advance over inventories and receivables (22 days advance) allow companies from the analyzed sector to fund significant long-term investment (twice the level of depreciation) and preserve the marginal liquidity situation;
- The companies from the analyzed sector which operate locally register the slowest level of debt collection, 153 days respectively, with 50 days longer than the regional average;
- Only analyzed companies operating in Romania, Croatia and Slovenia register a negative value of cash conversion cycle, which confirms that these companies pay their suppliers later than the average of debt collection and inventory turns.

“*2014 registered a remarkable performance in terms of revenues, with the level increasing by 24% and only 2% of companies reporting decreased revenues. 40% of growth is powered by the newly established companies in this sector (346 companies), while 50% of growth is powered by very large companies, with EUR 1 MIL turnover. However, the advance of the income is not found in additional profits and the dynamic is decreasing. The consolidated net result for 2014 at the sectorial level was 4.7%, registering a decreasing dynamics growth,* *5.8% in 2013 and 8.9% in 2012. In this context, in order to support long-term finance investments, the companies from the analyzed sector extended the average term of their debt in the short term to 269 days, 11 days over the operational cycle* ***and at the broadest level than the average regional level*** *(Central and South East Europe). Local companies that operate in this sector present weaker financial indicators than the average in Central and Eastern Europe****, Romania reporting for this sector, compared to the regional average, the largest share of companies with major risk of insolvency as well as companies that perform late payments****"* stated Iancu Guda, Services Director, Coface Romania Credit Management Services.

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