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2016

STUDY OF INSOLVENCIES FIRST HALF ROMANIA

ECONOMIC PUBLICATION COFACE ROMANIA

by Iancu Guda (Senior Economist, Coface Romania)



We notice, for the first half of 2016, for the first time in the past 8 years, a reduction of the systemic effect caused by the phenomenon of insolvencies. Although the number of insolvencies registered a significant decrease by -28% in 2014, by -50% in 2015 and by -25% in the first half of this year, the economic impact caused by these numbers was relatively constant, given that financial losses (balance sheet debt not covered by fixed assets) were placed between 13 and 14 billion RON, and social ones (number of lost jobs) varied between 80,000 and 90,000.

The positive evolution from the first half of 2016 must continue, considering the relative positioning compared to the average value recorded at regional level, the latter indicating that there are many aspects to be improved. Romania continues to have an incidence of insolvencies for 1,000 active companies of more than three times compared with the average recorded at regional level, with 23 insolvencies at 1,000 active companies, occupying the second position (following Serbia) from this point of view.

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FIRST HALF 2016

ROMANIA'S ECONOMIC EVOLUTION

BY OUR ECONOMIST



IANCU GUDA

Senior Economist
Coface Romania

For most countries, the level of insolvencies still has not returned to the levels registered prior to the 2008 crisis. In the Czech Republic there were almost 4 times more insolvencies than in 2008, in Poland 1.8 times more and in Slovenia 2.2 times more. At the same time, insolvent companies from Slovakia and Romania are still below pre-crisis levels.

However, the statistics concerning insolvencies from 2015 illustrate a positive image of companies from the Central and Eastern Europe (CEE). This trend should persist as corporations continue to benefit from a favorable economic environment, especially in comparison with the problems faced by many emerging economies.

<< Although the number of companies interrupting their activity is growing, the current year brings a change from the perspective of economic system regeneration.

It is for the first time during the past 8 years when newly registered LLCs have reported such a great evolution, as their number increased in the first five months of the current year by 31%, in comparison with the same period of the previous year. In this context, the ratio between the companies interrupting their activity versus newly registered ones decreased to 1.63.>>

IANCU GUDA

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Iancu Guda has excellent competencies of financial analysis and research in the macro/ microeconomics, corporate finance and financial analysis and he also has extensive experience as lecturer at conferences, workshops and seminars.

FIRST HALF 2016

SUMMARY

According to preliminary data published by IPB and based on the Coface methodology, during the first half of 2016 4,291 new insolvency procedures were opened, registering a decrease by approximately 25% compared with the same period of the previous year, when 5,759 insolvencies were opened. According to Coface estimations, the total number of newly opened insolvencies in 2016 will be of approximately 7,800, 55% less than the average of the last 10 years (trend evolution of insolvencies).

Important considerations about the evolution of insolvencies:

- In line with the structure of the universe of companies that are active in Romania (very strongly concentrated in large companies, given that the largest 5% of companies concentrate approximately 70% of total revenues), about 96% of contraction is due to the decrease in the number of insolvent companies with turnover of less than EUR 100,000;
- We notice, for the first half of the current year, for the first time in the past 8 years, a reduction of the systemic effect caused by the phenomenon of insolvencies. As noticed in table 1 (page 5) although the number of insolvencies recorded a significant decrease during 2014 (-28%) and 2015 (-50%) and the first half of this year (-25%), the economic impact caused by these numbers was relatively constant, given that financial losses (balance sheet debt not covered by fixed assets) were placed between 13 and 14 billion RON, and social ones (number of lost jobs) varied between 80,000 and 90,000. Decrease of insolvencies during 2014 and 2015 was not correlated with a beneficial effect on the economy, given that the number of insolvent companies was high. Instead, the decrease by 25% of newly opened insolvencies in the first half of this year compared to the same period last year, is correlated with a decrease in the negative domino effect propagated in the economy, financial losses decreasing by 56% and the number of lost jobs by 12% (according to table 2, page 5);
- The number of insolvencies opened during the first half of the current year among companies with the turnover of over 1 MIL EUR also records an important decrease, 229 companies respectively, compared with 309, during the same period of the last year;
- Reduction of the negative spillover effect into the economic system is observed also in the dynamics of the general payment behavior. The value of instruments rejected for payment in the first five months of this year was of only 1.5 billion RON, 71% less than the level recorded in the previous year, the level being similar to the same period of 2008, i.e. before the local effects of the international financial crisis. Moreover, the number of instruments rejected for payment has decreased in the analyzed period by 21%, their average decreasing from the level recorded in 2015, 148 K RON respectively to just 53K RON this year.

LEXICON

IPB = Insolvency Proceedings Bulletin

CEE = Central and Eastern Europe

MPF = Ministry of Public Finances

PIR = Payment Incidents Register, NBR

IPB = Insolvency Proceedings Bulletin

DSO = (Days Sales Outstanding) average duration of debt recovery

DIH = (Days of Inventories on Hand) average length of inventory turnover

DPO = (Days of Payables Outstanding) average duration of payment to suppliers

CCC = (Cash Conversion Cycle) Cycle of cash conversion

PLA = Profit and loss account

II = Individual enterprise

ONRC = National Trade Register Office

Table 1: Financial and social impact generated by insolvent companies in the period 2013-2015

Indicator (MIL RON data)	2015	2014	2013
Total insolvencies	10.110	20.170	27.924
out of which, financial MF	5.456	10.038	13.816
Total liabilities	21.213	23.426	33.441
Total current assets	6.870	10.247	18.587
Losses (liabilities over current assets)	14.343	13.179	14.854
Financial impact (loss / company)	2,6	1,3	1,1
Number of employees	81.577	82.273	92.983
Number of employees / company	15	8	7

Source: IPB, NTRO, MF, Coface, data processed by the author

Table 2: Financial and social impact generated by insolvent companies in the first half of 2016

Indicator (values in MIL Ron)	Insolvencies H1 2016	Insolvencies H1 2015	Deviation
Total insolvencies	4.291	5.759	-25%
out of which, financial MF	2.365	2.944	-20%
Total debt	9.735	13.916	-30%
Total current assets	5.240	3.709	41%
Losses (liabilities over current assets)	4.495	10.207	-56%
Financial impact (loss / company)	2	3	-45%
Number of employees	39.355	44.968	-12%
Number of employees / company	17	15	9%

Source: IPB, NTRO, MF, Coface, data processed by the author

Looking ahead, the key challenges for the Romanian business environment are the following:

- Continuing the positive trend on improving payment discipline. The positive evolution from the first half of the current year must continue, considering the relative positioning compared to the average value at regional level, the latter indicating that there are many aspects to be improved. Romania continues to have an incidence of insolvencies for 1,000 active companies of more than three times compared with the average recorded at regional level, with 23 insolvencies at 1,000 active companies, occupying the second position (following Serbia) from this point of view. The comparison with Poland (the most sustainable model in this respect) is eloquent, as it recorded nearly four times more active companies than Romania, but under 1,000 insolvent companies in each of the past ten years. The number of insolvent companies from Romania in one year is almost equal to the total of insolvencies opened in Poland in ten years;
- Romania is a country with a large population, but with very few companies. This is due in particular to decreased entrepreneurship, high level of corruption and high migration effect, also affecting increasingly more the qualified workforce. Romania has an entrepreneurship rate of only 2%, with only 23 active companies to every 1,000 inhabitants, while the average at regional level is of 57. The most sustainable model in this respect is the Czech Republic, with 137 active companies for every 1,000 inhabitants, although Czech Republic has a population two times smaller than Romania, but almost three times more active companies;
- The private sector is still affected by a very high rate of closure of active companies. Although the number of newly opened insolvencies decreases by 23% for the period January-May 2016 (according to the last NTRO reports), the number of de-registered companies increases by 63%, dissolved ones by 52% and suspensions by 9%. The number of companies interrupting their activity during the first five months of this year increases by 47% compared with the same period of the previous year, being by 63% higher than the newly registered companies, although the latter increases by 31% among LLCs.

Table 3: Activity interruptions

Interruptions (OUT)	January-May 2016	January-May 2015	Deviation
Suspensions	8.390	7.665	9%
Dissolutions	15.449	10.157	52%
De-registrations	56.507	34.565	63%
Insolvencies	3.668	4.782	-23%
Total discontinuations	84.014	57.169	47%
Registrations certified natural person-IE-FE	16.297	24.352	-33%
Registration of LLCs	35.029	26.794	31%
Various registrations	184	317	-42%
Total recordings	51.510	51.463	0%
Ratio OUT: IN	1,63	1,11	

Source: NTRD, Data processed by the author

1 SECTORAL AND TEMPORAL DISTRIBUTION OF INSOLVENT COMPANIES

Coface Romania conducted a new study concerning the evolution of the insolvencies number in Romania, this time taking into consideration the newly recorded cases with the Insolvency Proceedings Bulletin during the first half of 2016⁽¹⁾. According to preliminary data published by IPB and based on the Coface

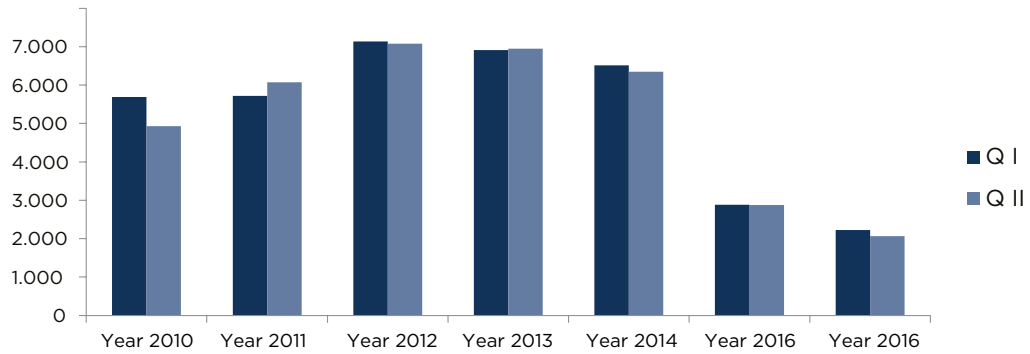
methodology, during the first half of 2016, 4,291 new insolvency procedures were opened, registering a decrease by approximately 25% compared with the same period of the previous year, when 5,759 insolvencies were opened, and by 55% below the average of past 10 years (trend evolution).

Table 4: Monthly evolution of newly opened insolvencies

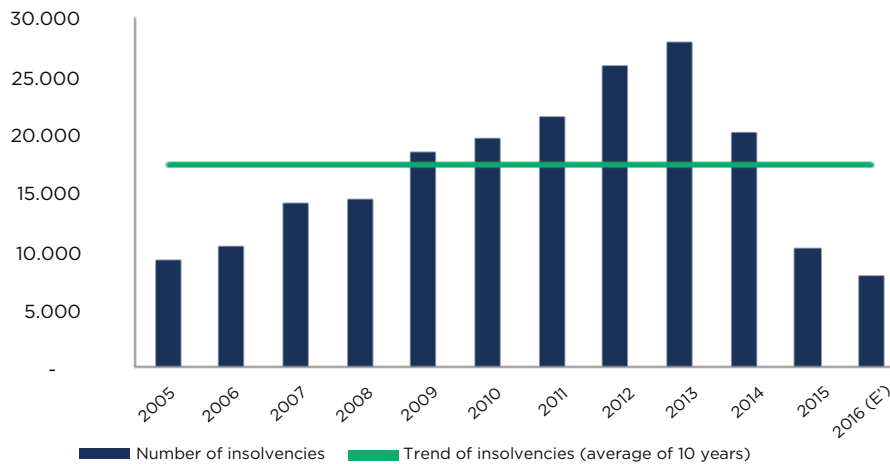
Month	2010	2011	2012	2013	2014	2015	2016
January	1.897	1.709	2.159	2.101	2.091	976	701
February	1.903	1.849	2.420	2.441	2.210	924	726
March	1.887	2.160	2.560	2.368	2.211	983	797
April	1.506	1.847	2.340	2.690	2.059	976	761
May	1.544	2.097	2.396	1.945	2.118	923	683
June	1.880	2.127	2.343	2.310	2.173	977	623
July	852	811	1.322	1.517	1.151	505	
August	575	658	1.007	1.050	373	328	
September	2.021	2.061	2.444	2.313	1.284	928	
October	1.932	2.202	2.724	4.070	1.421	962	
November	2.222	2.379	2.504	2.976	1.148	887	
December	1.431	1.599	1.623	2.143	1.931	741	
Total semester I	10.617	11.789	14.218	13.855	12.862	5.759	4.291
Semester deviation		11%	21%	-3%	-7%	-55%	-25%
Total year	19.650	21.499	25.842	27.924	20.170	10.110	7800 (E')

Source: IPB, Data processed by Coface

(1)See Methodological notes on page 17

Graph 1: Evolution of newly opened insolvencies during 2010 - 2016

Source: IPB, Data processed by Coface

Graph 2: Evolution of newly opened insolvencies during 2010 - 2016

Source: IPB, Data processed by Coface

Considering this constant decrease of newly opened insolvencies in the past three years, the estimated level for the entire current year is below the one registered in 2005, the previous minimum value of the past ten years. Despite the important contraction, the decrease of the insolvencies number during the

first half of the current year is found in a proportion of 96% among the companies that in any case did not conduct any activity (their turnover registered for 2014 being zero) or the level of revenues recorded in 2014 did not exceed EUR 100 K.

Table 5: The structure of dynamics of newly opened insolvencies during 2014 - 2015

Turnover Category (EUR)	Insolvencies H1 2016	Insolvencies H1 2015	Deviation	% Deviation
Without Financial MF	1,926	2,815	-889	61%
Without activity	446	831	-385	26%
1. 0 - 100 K EUR	1,074	1,207	-133	9%
2. 100 - 500 K EUR	462	466	-4	0%
3. 500 - 1000 K EUR	154	131	23	-2%
4. 1 - 5 MIL EUR	177	240	-63	4%
5. 5 - 10 MIL EUR	28	35	-7	0%
6. 10 - 50 MIL EUR	17	32	-15	1%
7. 50 - 100 MIL EUR	5	2	3	0%
8. Over 100 MIL EUR	2		2	0%
Total	4.291	5.759	-1.468	100%

Source: IPB, MPF, Data processed by Coface

Instead, it is for the first time in the past eight years that insolvencies contraction is accompanied by a decrease in financial and social impact as well as a decrease in instruments rejected for payment nationwide. The losses caused to creditors and business partners (estimated by the carrying value of debt that exceeds the level of assets for the balance

for the financial year 2014) by the companies that became insolvent in the first half of the current year are of 4.49 billion RON, by 56% lower than those related to insolvencies from the same period last year, 10.2 billion RON respectively

Table 6: Financial and social impact generated by insolvent companies

Indicator (values in MIL RON)	Insolvencies H1 2016	Insolvencies H1 2015	Deviation
Total insolvencies	4.291	5.759	-25%
out of which, financial MF	2.365	2.944	-20%
Total debt	9.735	13.916	-30%
Total current assets	5.240	3.709	41%
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Number of employees	39.355	44.968	-12%
Number of employees / company	17	15	9%

Source: IPB, NTRO, MF, Coface, data processed by the author

The dynamics recorded during the first half of the current year is completely different in comparison with the evolution recorded in 2013-2015, when the decrease of insolvencies was accompanied by the increase of financial and social impact, coupled with the deterioration of payment behavior reported by value advance of promissory notes and checks

rejected for payment. In this context we can appreciate that the first half of the current year signals a possible deceleration of the domino effect propagated by insolvent companies by reducing the contagion effect fuelled between the companies through the trade credit.

Table 7: Financial and social impact generated by insolvent companies in the period 2013-2015

Indicator (MIL RON data)	2015	2014	2013
Total insolvencies	10.110	20.170	27.924
out of which, financial MF	5.456	10.038	13.816
Total liabilities	21.213	23.426	33.441
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Number of employees	81.577	82.273	92.983
Number of employees / company	15	8	7

Source: IPB, NTRO, MF, Coface, data processed by the author

By analyzing the phenomenon of insolvencies compared with the dynamics from similar countries from the Central and Eastern European region, Romania still registers a very high incidence of insolvencies compared to the number of active companies. According to the data presented in table 8 (extracted from the study of insolvencies prepared by Coface analysts for the CEE region), Romania and Serbia are the only countries that recorded in 2015 more than 20 insolvencies for 1,000 active companies. Although Romania has a share of approximately 7% from the total of active companies at the level

of CEE region, our country has generated during 2015 approximately 22% of insolvencies recorded at regional level. Under these conditions, the report of 23 insolvencies for 1,000 active companies from Romania is of approximately three times higher than the average at regional level. Even if the number of newly opened insolvencies during the first half of 2016 has a decrease by 25% compared with the previous year, Romania will be further classified in the top 3 countries at regional level from the perspective of insolvencies for 1,000 active companies.

Table 8: Central and Eastern Europe - insolvencies 2015

Country	Insolvencies 2015	Insolvencies 2014	Insolvencies 2013	Total number of companies with activity	Insolvencies: 1,000 active companies	Total Population	Companies: 1,000 inhabitants
Serbia	5.180	4.773	5.029	120.852	43	7.146.759	17
Romania	10.170	20.170	27.924	450.286	23	19.947.311	23
Lithuania	1.960	1.686	1.552	99.200	20	2.943.472	34
Hungary	9.748	17.461	13.489	560.853	17	9.877.365	57
Czech Republic	13.877	12.772	11.070	1.439.747	10	10.512.419	137
Croatia	1.977	2.764	3.227	263.897	7	4.246.809	62
Slovenia	950	1.446	999	203.542	5	2.061.085	99
Latvia	830	963	810	222.000	4	2.001.468	111
Bulgaria	592	644	834	405.812	1	7.245.677	56
Slovakia	446	522	507	539.089	1	5.415.949	100
Estonia	131	145	154	168.931	1	1.315.819	128
Poland	741	823	883	1.842.589	0	38.017.856	48

Source: Coface Central and Eastern Europe, Eurostat

By comparing the data published by IPB with those published by the MPF an increase in time is observed for the degree of transparency recorded for the companies that became insolvent. If less than 40% of insolvent companies in 2010, 2011 respectively submitted financial statements to MPF, this indicator increased by almost 47% for companies that became insolvent in 2012 and exceeded even the threshold of 55% for the first half of 2016. Therefore, we can appreciate that on average one of two companies entered in insolvency submits financial statements in the year prior to its entry into insolvency.

Table 9: Insolvent companies - financial statements submitted to MPF

Total insolvencies 2016	4,291
of which submitted statements to MPF	2,365
Percentage	55,12%
Total insolvencies 2015	10,170
of which submitted statements to MPF	5,372
Percentage	52,82%
Total insolvente 2014	20,170

Total insolvencies 2014	20,170
of which submitted statements to MPF	9,977
Percentage	49,46%
Total insolvencies 2013	27,924
of which submitted statements to MPF	13,816
Percentage	49,48%
Total insolvencies 2012	25,842
of which submitted statements to MPF	12,021
Percentage	46,52%
Total insolvencies 2011	21,499
of which submitted statements to MPF	8,153
Percentage	37,92%

Source: MPF, IPB

Based on the financial statements submitted in the year before the year of entering into insolvency and based on the main object of activity indicated by the NACE code, Coface distributed the companies

entered in insolvency during the first half of the current year, on most important 23 sectors of activity, the figures being displayed in the following table.

Table 10: Sectoral distribution of insolvencies for the past 2 years⁽²⁾

Activity sector	Insolvencies H1 2016	Insolvencies % Total	Insolvencies H1 2015	H1 Deviation 2016 / 2015	Insolvent for 1.000 companies
Wholesale and Distribution	740	17%	1.020	-27%	16
Retail	713	17%	1.068	-33%	12
Constructions	671	16%	930	-28%	25
Other activities of services provided mainly to companies	318	7%	461	-31%	9
Hotels and restaurants	291	7%	396	-27%	19
Transportations	267	6%	383	-30%	12
Agriculture	215	5%	179	20%	19
Manufacture of textiles, articles of clothing and footwear	151	4%	179	-16%	31
Manufacture of wood and wood products	135	3%	194	-30%	15
Food and beverage industry	126	3%	137	-8%	22
Other activities of personal services	98	2%	106	-8%	13
Metallurgical industry	93	2%	130	-28%	16
Recreational, cultural and sporting activities	67	2%	82	-18%	18
IT	58	1%	49	18%	7
Sanitation and garbage removal; sanitation and similar activities	56	1%	82	-32%	26
Real estate transactions	56	1%	88	-36%	8
Industry of machinery and equipment	49	1%	71	-31%	10
Extractive industry	40	1%	24	67%	52
Manufacture of chemicals and chemical products	40	1%	65	-38%	15
Production and supply of electric and thermal power, water and gas	33	1%	27	22%	Basic effect (46)
Financial brokerage	33	1%	35	-6%	8
Post and telecommunications	25	1%	39	-36%	12
Health and social care	16	0%	14	14%	3
Total	4.291	100%	5.759	-25%	15

Source: IPB, MPF

Even if we do not have the information concerning the basic activity for all companies that became insolvent during the analyzed period⁽³⁾, there are two reasons based on which we appreciate that the sectoral distribution at the level of the entire portfolio is similar with the sample analyzed, namely:

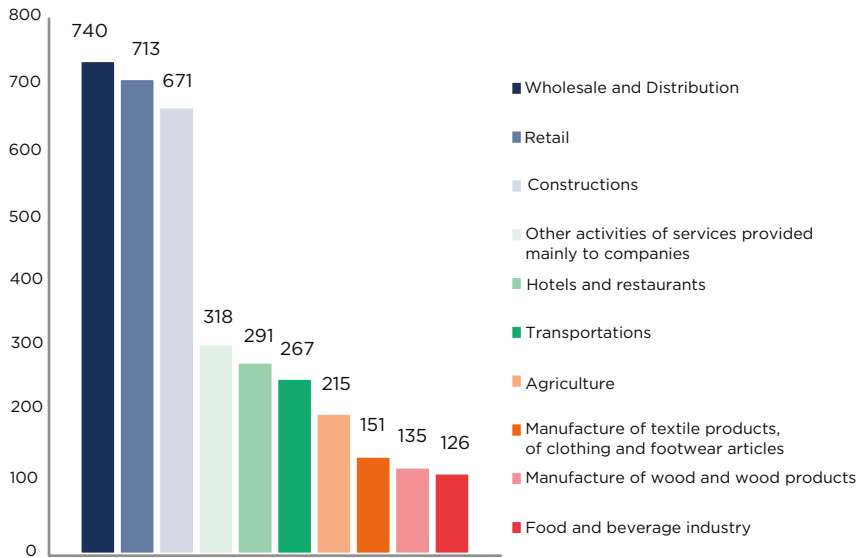
- The share of the sample is statistically significant for both years;

- The shares of sectoral distribution of the sample record similar values with the shares of distribution throughout the entire portfolio, recorded in studies conducted by Coface for the last 3 years.

(2)) By linear extrapolation of companies that submitted their financial statements to the MPF in the previous year of their entry into insolvency. Top ten sectors that recorded the highest number of insolvencies per 1,000 active companies were highlighted in red (active companies were considered only the companies that recorded a turnover of 1,000 EUR/month during 2013). Even if the sector of production and supply of electric and thermal power, water and gas, as well as the mining and quarrying sector rank first and four respectively in terms of insolvencies.

(3)These data can be calculated for approximately half of the insolvent companies.

Graph 3: Top 10 sectors in terms of the number of insolvencies in the first half of 2016

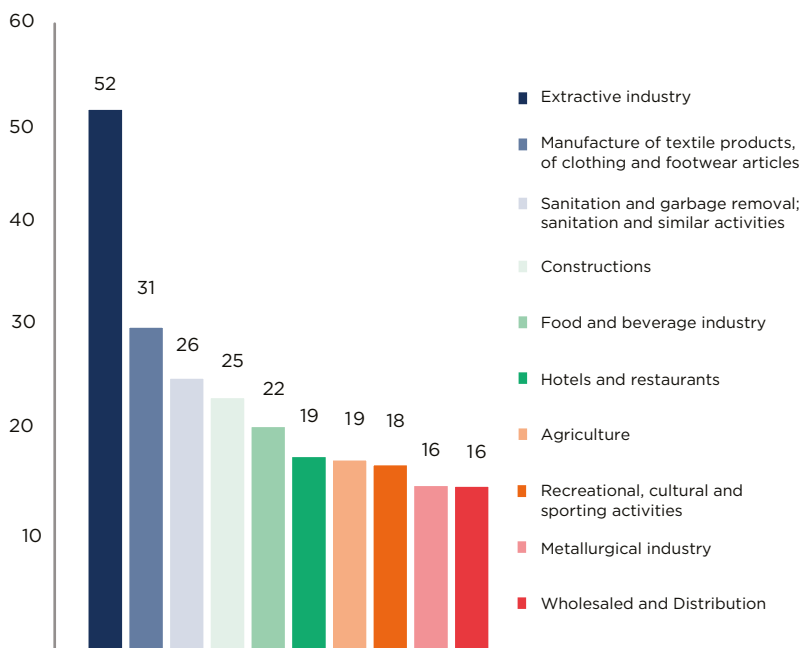


Source: IPB, MPF, Data processed by Coface

In most studies conducted by Coface concerning the evolution of insolvencies, the first 10 sectors recording the highest number of insolvent companies remained mainly unchanged, the only changes being in terms of the ranking order, but with a variation of maximum one, two positions. By analyzing the evolution of ongoing insolvent cases during the last 5 years, a tendency of consolidation of the concentration of volumes in the first 3 or 5 sectors can be noticed. The share of the first 3 sectors that recorded the most pending cases in terms of insolvency in absolute figures varied during the last 5 years between 50% - 54%, and for the first 5 sectors between 65% - 70%.

These shares are not random and are determined by structural factors, such as sectoral distribution of active companies at national level. The first 5 sectors recording the highest number of insolvencies cover a similar share also from the point of view of total active companies. Considering this structural factor, it is important to analyze the number of insolvencies reported to the total of active companies⁽⁴⁾ from the respective sector. The first 10 sectors recording the most increased values for this indicator are listed in the following graphic.

Graph 4: Top 10 sectors in terms of the number of insolvencies in the first half of 2016



Source: IPB, MPF, Data processed by Coface

(4)In the “Active companies” category only the companies that recorded a turnover > 1,000 EUR/ month during 2014 were included.

3 PROFILE OF INSOLVENT COMPANIES

The evolution in time of companies that became insolvent in the first half of 2016

From the total of 4,291 insolvent companies during the first half of the current year, 2,365 companies have submitted financial statements for the activity conducted in 2014. For these companies the preliminary financial indicators at the level of the entire sample were calculated for the period 2008-2014. The results are presented in table 11 and are of nature to confirm that:

- Unlike the profile of insolvencies in the period 2010-2015, when one of the main causes of insolvency was caused by over-indebtedness caused by gradually accumulated losses and inefficient use of assets, companies that became insolvent in the first half of the year had a sustained decrease in terms of indebtedness level. The latter recorded a peak of indebtedness in 2010, 92% respectively, for the level recorded at the end of 2014 to be 78%;
- Neither the volatility of income seems to be the cause of activity interruption for these companies, given that the average level of incomes recorded by insolvent companies during the first half of the current year were highly stable during 2010-2014, and well above average in the period 2008-2009;
- 2014 was marked by a higher level of net losses, -7.8% from the turnover respectively, although 2009-2010 signaled similar problems. The level of losses from 2014 has determined the increase of indebtedness degree by reducing capitals (so there were not supplemented by additional capitalization of the respective companies);
- Instead, one of the major problems of insolvent companies, and most obvious, relative to the rest of financial indicators, was caused by the increasingly slow collection of receivables. The companies that became insolvent during the first half of the current year registered almost a threefold increase of the average duration of debt collection during 2008-2014, the DSO increasing gradually from 89 days (2008) to 231 days (2014);
- In this context, the average duration of payment to suppliers grew even faster in the analyzed period, increasing from 81 days (2008) to 291 days (2014);
- The money conversion cycle (calculated by the cumulative level of stocks and receivables rotation minus average duration of payment to suppliers) has decreased significantly in 2014, which means that the main source of financing long term investments and losses was represented by the increase of short-term debts, most of them being supplied from suppliers.

Table 11: Insolvent companies in the first half of 2016 - Financial Indicators

Indicator	Financial 2014	Financial 2013	Financial 2012	Financial 2011	Financial 2010	Financial 2009	Financial 2008
Average Turnover (MIL RON)	3,80	3,94	3,88	3,94	3,11	2,94	3,35
Net result	-7,8%	0,5%	-0,5%	2,3%	-5,8%	-6,0%	-3,5%
Indebtedness degree	78%	70%	70%	74%	92%	86%	88%
CA / Liabilities	92%	125%	119%	136%	79%	79%	99%
Fixed Assets / Assets	42%	51%	48%	44%	55%	57%	56%
DSO	231	181	156	142	158	131	89
DIH	45	49	60	45	52	48	39
Suppliers rotation / CA	291	235	189	148	112	98	81
Operational cycle	276	230	216	187	210	179	128
CCC	-15	-5	27	39	98	81	47

Source: IPB, MPF. Data processed by Coface

Table 12: Insolvent companies in the first half of 2010-2016, situation of financial indicators

Indicator	Insolven- cies 2016	Insolven- cies2015	Insolven- cies2014	Insolven- cies2013	Insolven- cies 2012	Insolven- cies2011	Insolven- cies 2010
Average Turnover (MIL RON)	3,80	2,74	2,04	2,19	1,47	1,35	1,75
Net result	-7,8%	-7,9%	-12%	-10%	-15%	-17%	-17%
Indebtedness degree	78%	123%	99%	101%	64%	112%	99%
CA / Liabilities	92%	69%	82%	91%	59%	55%	73%
Fixed Assets / Assets	42%	40%	43%	47%	68%	48%	45%
DSO	231	181	166	134	188	199	179
DIH	45	70	72	57	63	82	79
Suppliers rotation / CA	291	235	235	177	233	242	234
Operational cycle	276	251	238	191	251	281	258
CCC	-15	16	3	14	18	39	24

Source: IPB, MPF, Data processed by Coface

By analyzing the figures from table 13 we notice the following:

The companies that became insolvent during the first half of the current year presents a financial situation that is generally better compared with the one recorded by insolvent companies during the similar period of 2010-2015. The companies that became insolvent in the first half of the current year register:

- an average level of turnover of RON 3.80 MIL, significantly higher than the average of the period recorded by insolvent companies during 2010 - 2015 (1.93 MIL RON);
- a much lower level of loss, of only -7,8%, compared to the losses of more than -10% recorded by insolvent companies during 2010-2015;
- much lower leverage ratios, 78% respectively, while companies that became insolvent during 2010-2015 were over-indebted (negative equity);
- one of few indicators showing a deterioration of insolvencies from the first half of the current

year compared to the past period is the more extensive average duration of receivable collection, of 231 days respectively (and three times higher than the 2008 level), while the average for this indicator reported by the companies that became insolvent during 2010-2015 was of 175 days.

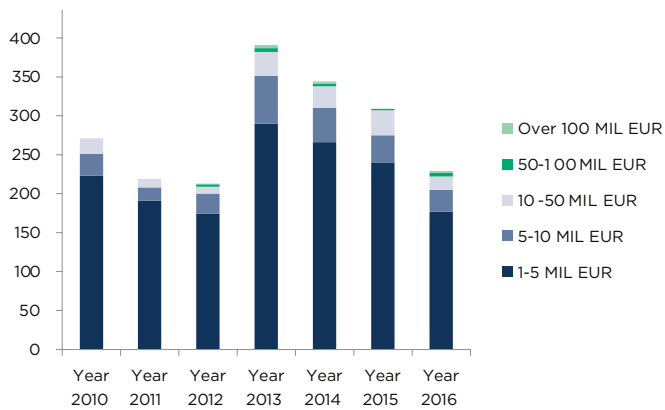
Size of insolvent companies

A concerning element signaled by Coface in the last studies concerning the evolution of insolvencies is represented by an increased number of insolvent companies with a turnover of over 1 million EUR, which are likely to spread a contagion effect in the business environment, although the total number of insolvencies is falling. Deceleration of the domino effect previously signaled in this study is also confirmed by the reduction of the number of large companies that became insolvent this year. Only 229 of companies that became insolvent in the first half of 2016 recorded a turnover of over 1 MIL EUR compared with 309 in the same period of the previous year.

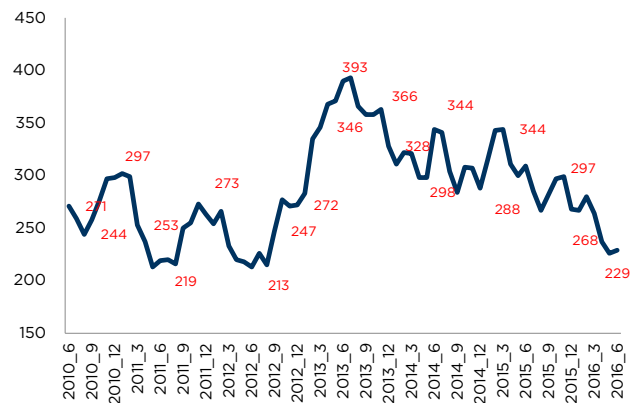
Table 13: Distribution of insolvent companies during the first half during 2010-2016

Turnover Category Insolvencies in H1	2010	2011	2012	2013	2014	2015	2016
1-5 MIL EUR	223	191	174	290	266	240	177
5-10 MIL EUR	28	17	26	61	44	35	28
10-50 MIL EUR	20	11	9	31	28	32	17
50-100 MIL EUR			3	5	3	2	5
Over 100 MIL EUR			1	4	3		2
Total insolvencies TO > 1 MIL EUR	271	219	213	391	344	309	229

Source: IPB, MPF, Data processed by Coface

Graph 5: Distribution of insolvent companies with turnover of over 1 MIL EUR

Source: IPB, Data processed by Coface

Graph 6: Number of insolvent companies with turnover > 1 MIL EUR (mobile amount 6 months)

Source: IPB, Data processed by Coface

4 PAYMENT BEHAVIOUR

The aspects signaled previously in terms of deceleration of systemic contagion effect is also reflected through the data published by NBR in reference to the evolution of instruments rejected for payment. According to data published by PIR the amounts refused for payment with debit instruments during the first five months of the current year were totaling 1.5 billion RON, a decrease by 71% compared

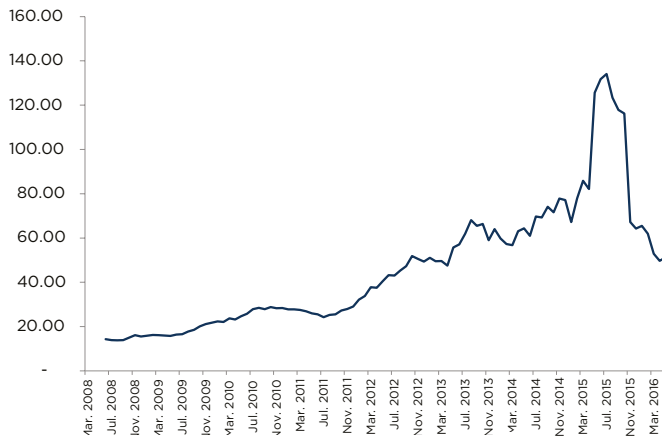
with the same period of the previous year and relatively similar with the 2008 level, before the impact of financial crisis. Given that the number of payment incidents analyzed in the same period decreased by 21%, the mean value of payment incidents in the current year dropped to just 53K RON, nearly three times less than in the previous year.

Table 14: Activity interruptions 2014-2015

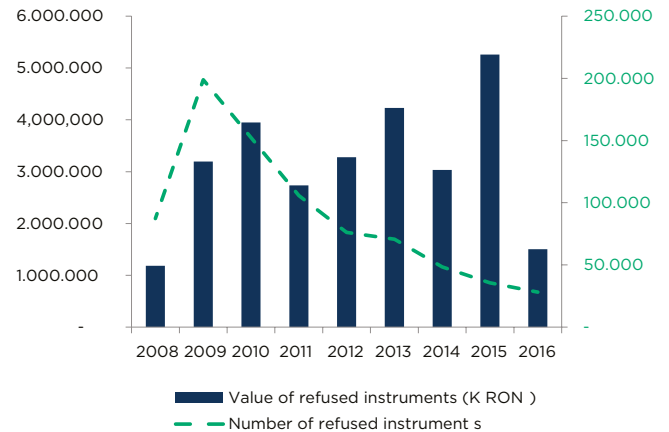
Period January - May corresponding to the year	Value of refused instruments (K RON)	Number of refused instruments	Average value of incidents (K RON)	PIR Amounts %	PIR Number %
2008	1.186.137	87.233	14		
2009	3.193.932	198.898	16	169%	128%
2010	3.949.083	153.846	26	24%	-23%
2011	2.735.663	105.793	26	-31%	-31%
2012	3.280.225	76.232	43	20%	-28%
2013	4.229.927	70.719	60	29%	-7%
2014	3.032.457	48.469	63	-28%	-31%
2015	5.259.027	35.613	148	73%	-27%
2016	1.502.275	28.219	53	-71%	-21%

Source: NBR (PIR), Data processed by Coface, Figures are in K RON

Graph 7: Average value PIR (K RON)



Graph 8: Number and value of incidents



Source: NBR (PIR), Data processed by Coface

5 TERRITORIAL DISTRIBUTION OF INSOLVENT COMPANIES

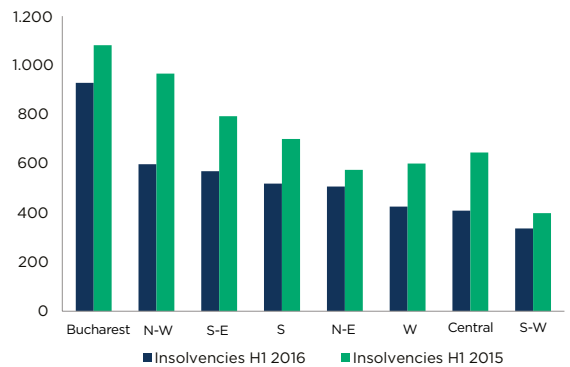
The territorial distribution of insolvency cases during the first half of the current year did not suffer important changes compared with the existing situation in the same period of the previous year. Bucharest and N-W areas remained the first two regions where the highest number of insolvencies is recorded, while Central, W and S-W regions occupy the last positions from this point of view.

Table 14: Regional distribution of insolvent companies

Region	Insolvencies H1 2016	Insolvencies H1 2015	Deviation Insolvencies 2016-2015
Bucharest	928	1.081	-14%
N-W	598	966	-38%
S-E	569	793	-28%
S	519	700	-26%
N-E	507	575	-12%
W	425	600	-29%
Central	409	645	-37%
S-W	336	399	-16%
Total	4.291	5.759	-25%

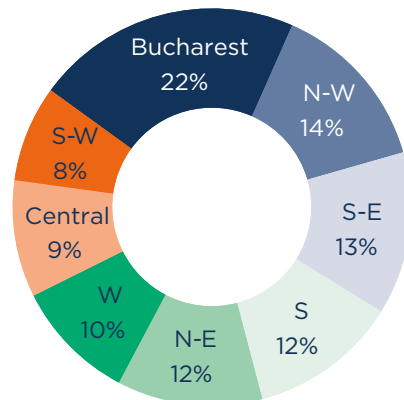
Source: IPB, Data processed by Coface

Graph 9: Distribution by geographical zone of insolvency cases recorded during 2015-2016



Source: IPB, MPF, Data processed by Coface

Graph 10: Regional distribution of insolvencies opened in the 1st half - 2016



Source: IPB, MPF, Data processed by Coface

6 THE PRIVATE SECTOR - WHERE TO?

By analyzing the data published by NTRO the ratio between the number of companies that interrupted their activity (all forms) compared to the number of newly registered companies (LLCs) increased by approximately five times after the impact of the financial crisis from the level recorded in 2008, 0.48 respectively to almost 2.33, level registered in 2015.

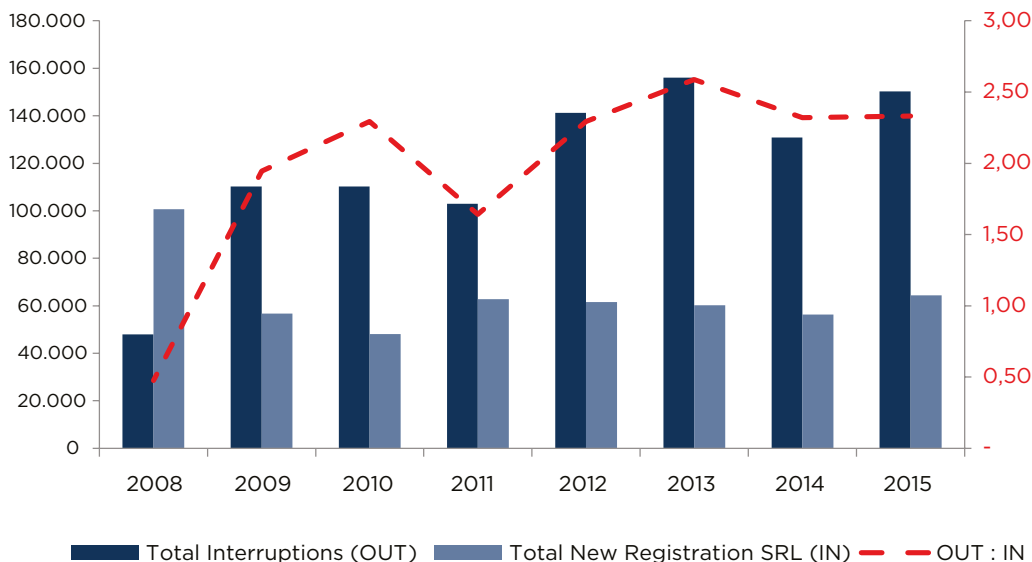
This confirms the fact that the dynamics of activity interruptions was net superior to new companies registration, in the context of a highly decreased entrepreneurship, as well as of fiscal framework that shows no predictability and long-term sustainability.

Table 16: Ratio of registrations versus Activity interruptions

Interruptions (OUT)	2008	2009	2010	2011	2012	2013	2014	2015
Suspensions	12.019	29.456	24.398	21.221	21.086	24.078	15.788	17.698
Dissolutions	3.762	18.766	7.508	4.001	22.500	23.208	18.336	27.967
De-registrations	17.676	43.615	58.726	56.245	71.746	80.786	76.483	94.374
Insolvencies	14.483	18.421	19.650	21.499	25.842	27.924	20.170	10.170
Total interruptions	47.940	110.258	110.282	102.966	141.174	155.996	130.823	150.209
Registrations	144.239	116.022	119.048	130.162	125.603	124.816	101.627	113.167
Registration of LLCs	100.661	56.698	48.102	62.735	61.542	60.292	56.381	64.417
Ratio OUT: IN	0,48	1,94	2,29	1,64	2,29	2,59	2,32	2,33

Source: NTRO, Data processed by Coface

Graph 11: Dynamics OUT: IN



Source: NTRO, Data processed by Coface

Although the number of companies interrupting their activity is growing, the current year brings a change from the perspective of economic system regeneration. According to the latest figures published by NTRO, 84,014 companies interrupted their activity during the first five months of 2016, registering an increase by 47% compared with the same period of the previous year. Although the number of newly opened insolvencies has decreased by 25%, this contraction was compensated by the advance recorded for other forms of interruption,

the highest increase being registered for 63% de-registered companies and 52% dissolved respectively. Despite this, for the first time in the last 8 years when newly registered LLCs have reported such a great evolution, as their number increased in the first five months of the current year by 31%, in comparison with the same period of the previous year. In this context, the ratio between the companies interrupting their activity versus newly registered ones decreased to 1,63.

Table 17: Regeneration of the business environment 2015-2016

Interruptions (OUT)	January-May 2016	January-May 2015	Deviation
Suspensions	8.390	7.665	9%
Dissolutions	15.449	10.157	52%
De-registrations	56.507	34.565	63%
Insolvencies	3.668	4.782	-23%
Total interruptions	84.014	57.169	47%
Registrations certified natural person-IE-FE	16.297	24.352	-33%
Registration of LLCs	35.029	26.794	31%
Various registrations	184	317	-42%
Total recordings	51.510	51.463	0%

Source: NTRO, Data processed by Coface

METHODOLOGICAL NOTES

In this study the newly opened insolvencies during the past five years were considered, based on the data published by IPB (Insolvency Proceedings Bulletin). For example, all the companies with insolvency proceedings opened in the first half of 2016 (according to IPB) and not listed as being in operation in mid-July 2016 (according to NTRO) were considered as

being newly opened insolvencies during the first half of 2016. July allowed the correction of most update disparities between IPB and NTRO. The analysis of financial indicators for the companies taken into account was based on exclusively on the financial statements submitted at MPF during the analyzed period, based on the data processed by Coface.

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