

INSOLVENCIES STUDY ROMANIA H1 2019

COFACE ECONOMIC PUBLICATIONS

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SUMMARY



Even if Romania recorded a constant rhythm of real economic growth during the first quarter of this year, respectively 5.1%, the macroeconomic evolution is not sustainable due to many imbalances: the growth of the fiscal deficit by 81% during the first half of this year compared to the same period of the previous year (as the wages in the public sector grew by 25% and undervaluation of public investment), the highest annual inflation in the EU (4.1%), the increase of the trade deficit and depreciation of the national currency. In this context, the evolution of the business environment during the first half of this year is characterized by many contrasts. The decline of insolvencies is offset by the increase of the number of radiated companies, the payment delays increase significantly, and the large companies are preparing for difficult times.

GOOD NEWS – POSITIVE TRENDS

1. The number of insolvent companies decreased by 33% during the first half of this year compared to the same period of the previous year.
2. The number of large companies (turnover exceeding EUR 0.5 million) going insolvent records a decrease by almost 40%, reaching 174 insolvent companies during the first half of this year, the minimum level of the last decade.
3. The companies that went insolvent during the first half of this year generated the lowest financial (debt surplus over fixed assets) or social losses (number of jobs) of the last decade.
4. The regional distribution of insolvency cases during the first half of 2019 reflects the general decline at national level. Thus, all regions recorded declines exceeding 20% of insolvent companies.

BAD NEWS – RISKS FOR THE FUTURE

1. Almost three quarters of the decline in the number of insolvencies is recorded for the segment of companies that did not file their financial statements (37%), did not record income (14%) or whose turnover recorded in 2018 was under EUR 100,000 (27%).
2. The decline in the number of insolvencies is canceled by the significant increase in the number of companies that have been radiated (+76%), thus the number of companies that suspended their activity during the first half of this year is 85,960 companies, increasing by 36% compared to the same period of the previous year.
3. Refused payments with debit instruments during the first half of the current year had a total value of approximately RON 2 billion, almost three times more than during the same period of the previous year, respectively RON 0.74 billion.
4. The business environment remains very polarized, the 1,000 companies (by turnover) concentrating half of the income of all 500,000 active companies in Romania.
5. The large companies are conservative and are getting ready for hard times. Analyzing the balance sheet of the largest 1000 companies for 2018, it can be noted that investments are decreasing, the inventory turnover time increases, debt collection time remain at a fast pace, profits are reinvested in order to lower indebtedness, and the treasury is conserved for capitalizing on opportunities during crisis.
6. The profit and loss account of large companies reflects major challenges in their development: diminishing the gross margin (aggressive and sometimes unfair competition due to evasion), the decrease in operating profit (costs increase faster than revenues), the negative revaluation of current assets stocks expire, and some non-performing receivables are lost) and deterioration in competitiveness (assets are used for a longer period).



2 EVOLUTION OF INSOLVENCY

Coface Romania conducted a new survey on the evolution of the number of insolvency cases in Romania, this time taking into account the newly registered cases in the Insolvency Proceedings Bulletin during the first half of the current year. According to the preliminary data published by the IPB and on the basis of Coface's methodology, 3,058 new insolvency procedures were initiated during the first half of this year, a decrease by 33% compared to the same period of the previous year, when 4,562 insolvency procedures were initiated. Despite the significant decrease in insolvency procedures, approx. three quarters of the reduction is recorded in the segment of companies that did not file financial statements (37%), did not record income (14%) or whose turnover recorded in 2018 was under EUR 100,000 (27%).

Turnover category	Insolvencies H1 2019	Insolvencies H1 2018
Did not file financial statements	1529	2082
Zero - No activity	561	773
1. EUR 0 - 100 K	531	930
2. EUR 100K - 500 K	263	488
3. EUR 500K - 1,000 K	58	126
4. EUR 1 - 5 MIL.	89	120
5. EUR 5 - 10 MIL.	18	26
6. EUR 10 - 50 MIL.	9	16
		1
TOTAL	3058	4562

Table 1. Insolvencies as per recorded income

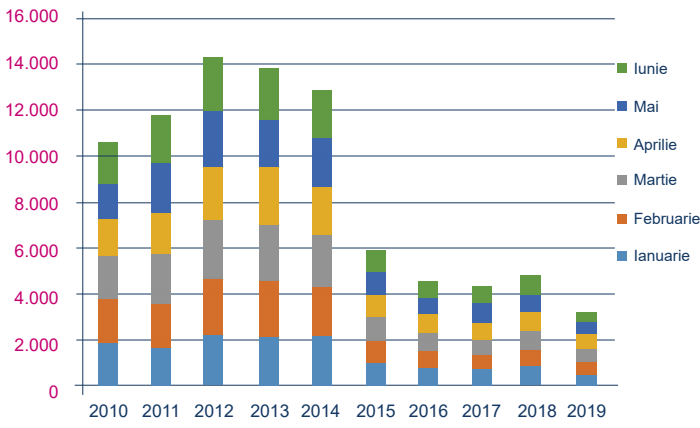


Chart 1. Insolvency cases during the 1st half of the last decade

Source: Insolvency Proceedings Bulletin, Ministry of Public Finance, National Trade Register Office, data processed by the author

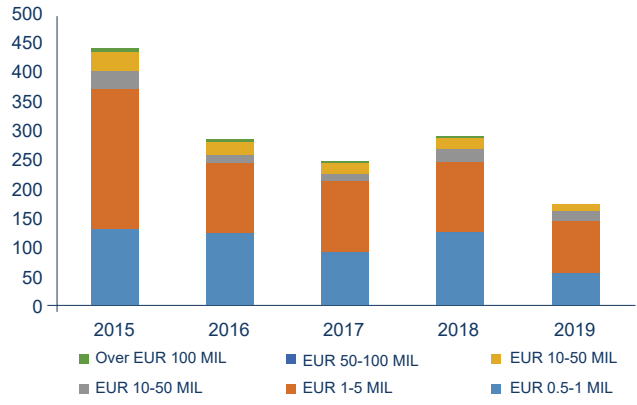


Chart 2: Insolvencies with the turnover exceeding EUR 0.5 MIL.

Source: Insolvency Proceedings Bulletin, Ministry of Public Finance, National Trade Register Office, data processed by the author

The number of the large companies (turnover exceeding EUR 0.5 mil.) going insolvent recorded a decrease by almost 40%, reaching 174 insolvent companies during the first half of this year, the minimum level of the last decade. This reflects the completion of the regeneration cycle of the business environment as a result of the second wave effects caused by the latest financial crisis and fiscal instability in Romania. According to the number shown in Table 2, companies that became insolvent during the first half of this year generated the lowest financial (debt surplus over fixed assets) or social losses (number of jobs) in the last decade, due to the decrease in the number of large companies who entered into payment default.

¹ See Methodological Specifications on page 14

Financial Indicator / H1 of the year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of insolvent companies	10.617	11.789	14.218	13.855	12.862	5.819	4.472	4.250	4.562	3.058
Of which who filed financial statements:	3.520	3.480	6.254	6.314	5.562	2.694	2.317	2.312	2.399	1.529
Total debts (RON MIL)	8.306	6.788	11.002	15.646	12.402	8.296	13.582	7.140	6.992	3.838
Total fixed assets (RON MIL.)	4.012	2.596	6.008	10.400	7.964	4.184	10.374	2.596	2.024	1.839
Losses (debts – non-current assets) RON MIL	4.294	4.192	4.994	5.246	4.438	4.112	3.208	4.544	4.968	1.999
Number of employees	1,2	1,2	0,8	0,8	0,8	1,5	1,4	2	2,1	1,3
Average loss / company (RON MIL)	29.322	23.037	33.157	40.134	30.731	29.686	22.770	19.285	25.963	14.416
Number of employees / company	8,3	6,6	5,3	6,4	5,5	11	9,8	8,3	10,8	9,4
Capitalization level	-3%	-12%	-29%	-19%	-17%	-13%	-8%	-1%	3%	5%

Table 2. Financial and social impact caused by the insolvent companies

Source: Insolvency Proceedings Bulletin, Ministry of Public Finance, data processed by the author

Based on the financial statements filed in the year prior to the year of going insolvent and according to the main activity indicated by the NACE code, Coface distributed the insolvent companies during the first half of this year by the 23 most important sectors of activity, the figures being shown in the table below.

Activity sector	Insolvencies 1st half - 2019	Insolvencies % Total	Insolvencies 1st half - 2018	Insolvencies every 1,000 comp.
Wholesale and distribution				
Constructions	480	16%	680	64
Retail	438	14%	753	31
Hotels and restaurants	387	13%	725	13
Transportation	280	9%	348	27
Other business activities	276	9%	338	50
Agriculture	230	8%	397	12
Manufacture of textiles, wearing apparel and footwear	163	5%	189	2
Manufacture of wood and wood products	125	4%	214	21
Food and beverage industry	89	3%	139	9
Metal industry	87	3%	104	9
Other personal service activities	77	3%	89	15
Real estate transactions	75	2%	107	2
Sports, cultural and recreation activities	69	2%	102	91
Financial services	50	2%	57	2
Machinery and equipment industry	44	1%	31	16
IT	34	1%	63	7
Sewage and refuse disposal, sanitation and similar activities	32	1%	59	36
Production and supply of electricity, thermal energy, water and gas	26	1%	24	1
Manufacture of chemical substances and products	24	1%	33	10
Post and telecommunication services	22	1%	35	4
Health and social services	18	1%	18	8
Extractive industry	16	1%	31	2
Total	16	1%	26	1

Table 3. Sectoral distribution of insolvency cases for the first half of the last 2 years²

Source: Insolvency Proceedings Bulletin, Ministry of Public Finance, National Trade Register Office, data processed by the author

Even if we do not have the information on the basic activity for all insolvent companies during the analyzed period³, there are two reasons on the basis of which we deem that the sectoral distribution at the level of the entire portfolio is similar to the analyzed sample, namely:

- The weight of the sample is statistically significant for both years;
- The weights of the sectoral distribution within the sample record similar values to the weights related to distribution at the level of the entire portfolio, recorded in the surveys conducted by Coface for the last 3 years.

² By linear extrapolation of the companies who filed their financial statements with the Ministry of Public Finance for the prior to the year of going insolvent. The first ten sectors recording the highest number of insolvency cases at every 1,000 active companies were identified in pink (active companies were deemed only the companies that recorded a turnover exceeding EUR 1,000 / month during 2016). 016).

³ These data may be calculated for approx. half of the insolvent companies.

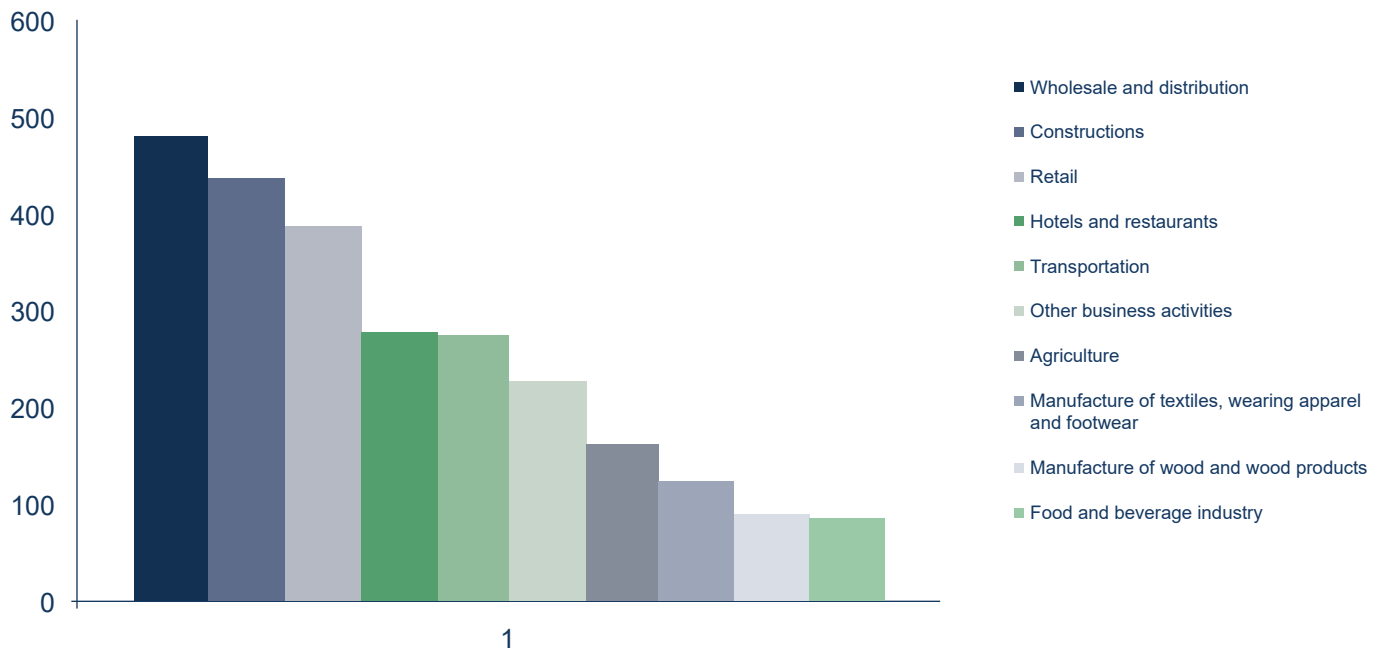


Chart 3: Top 10 sectors in terms of the number of insolvency cases in H1 2019

Source: Insolvency Proceedings Bulletin, Ministry of Public Finance, National Trade Register Office, data processed by the author

In most surveys conducted by Coface on the evolution of insolvencies, the first 10 sectors registering the highest number of companies in insolvency remained predominantly unchanged, the only changes being in the level within the top, but with variations of one, maximum two positions. Most insolvencies initiated during the first half of this year were recorded in the wholesale and distribution sector (480), followed by constructions (438) and retail (387). Analyzing the evolution of the insolvency cases pending in the last 5 years, there is a trend to consolidate the volume concentration level within the first 3, respectively 5 sectors. Thus, the share of the first 3 sectors that have registered the highest number of insolvency cases pending has varied over the last 5 years between 50% and 54%, and for the first 5 sectors between 65% and 70%. These shares are not accidental and are determined by structural factors, such as the sectoral distribution of all active companies at national level. Thus, the top 5 sectors recording the highest number of insolvency cases cover a similar share in terms of total active companies. Taking into consideration this structural factor, it is important to analyze the number of insolvency cases in relation to the total active companies⁴ of the relevant sector. The top 10 sectors recording the highest values for this indicator are listed in the chart below.

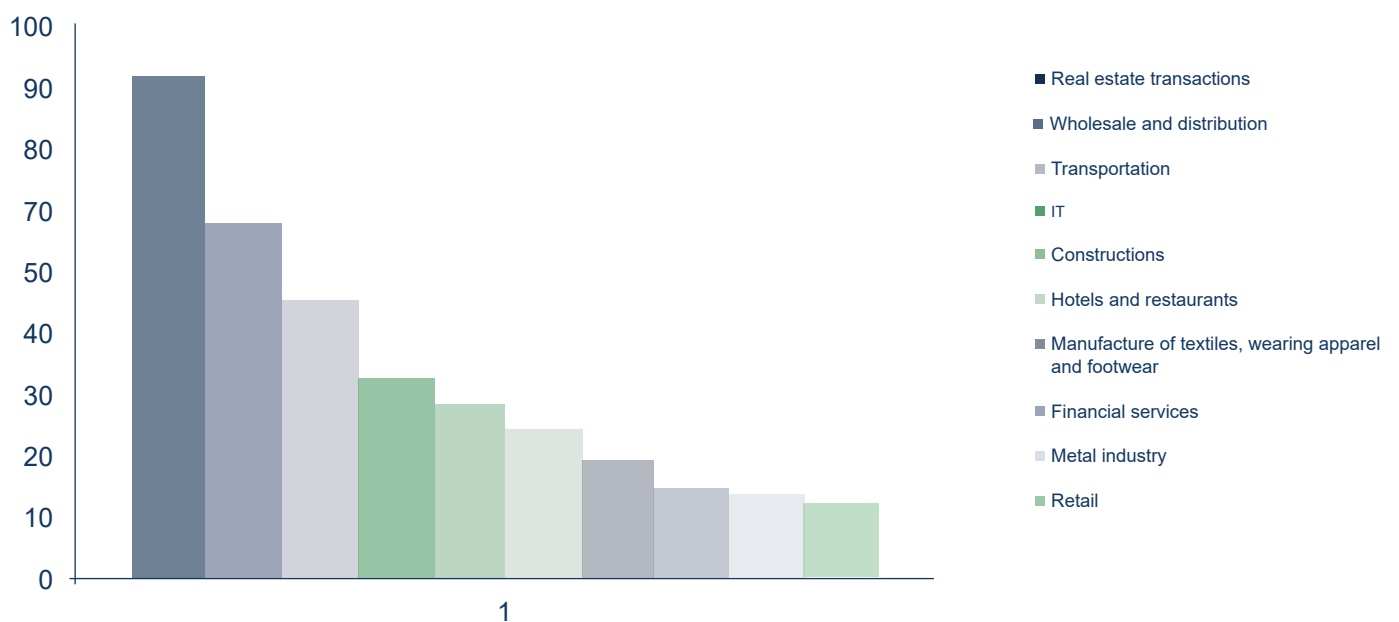


Chart 4: Top 10 sectors in terms of the number of insolvencies in Q1 2019 in relation to 1,000 active companies

Source: Insolvency Proceedings Bulletin, Ministry of Public Finance, National Trade Register Office, data processed by the author

3 PROFILE OF INSOLVENT COMPANIES

Evolution during the last decade of the companies going insolvent in the first half of 2019

Of the total 3,058 insolvent companies during the first half of this year, a number of 1,529 companies filed financial statements for the activity carried out during 2018. The preliminary financial indicators were calculated at the level of the entire sample for the period between 2010 and 2018 for these companies. The results are shown in the table below and confirm that one of the main causes that fueled the insolvency risk was the decrease in liquid assets that was offset by the extension of the supplier's credit. Thus, we draw the following conclusions regarding the companies that went insolvent during the first half of the current year:

- The income levels significantly increased over the past 3-4 years prior to insolvency. The average turnover recorded during 2018 was RON 4.42 mil., similar to the previous year, and almost twice the level recorded in 2010;
- The income increase was mainly due to the significant investments made during the recent years. Thus, the share of fixed assets of the total owned assets decreased constantly during the analyzed period, reaching 41% at the end of 2018;
- The immediate effect of long-term investments was the increase in losses, reaching -3.2% in 2016. Subsequently, the losses decreased, so that consolidated profit during 2018 was 1.2%. Despite the gradual improvement of the investment effectiveness, profits were modest and obtained too late, so that the financing costs could not be adequately covered. The interest increase put pressure on these companies, so that the insolvency companies focused on supplier's credit by the accelerated extension of the payment deadlines for them;
- The indebtedness of the relevant companies steadily increased, from 74% in 2010, to approx. 89% in 2018. This dynamics was caused by the accumulation of losses that eroded the equity level, the very low capital contribution of the shareholders, and the need to supplement the debts for managing the pressures on liquid assets;
- In this context, the level of debt coverage by the sales level decreased from 139% in 2010 to only 78% in 2018;
- In this context, the average payment term to suppliers increased faster during the last period, reaching 7-8 months during 2018. The extension of the payment terms to suppliers significantly surpassed the rate of increase of debt collec-

Indicator / Financial data for	2018	2017	2016	2015	2014	2013	2012	2011	2010
Turnover (RON mil.)	4,42	4,57	3,62	3,26	3,20	3,67	3,37	2,65	2,56
Net profit/loss	1,20%	-2,10%	-3,20%	-0,80%	-0,60%	-1,70%	-1,50%	-1,30%	-0,05%
Indebtedness	89%	87%	88%	83%	83%	84%	82%	81%	74%
CA / Debts	78%	90%	97%	94%	101%	107%	102%	96%	139%
Fixed assets / Assets	41%	40%	39%	36%	38%	34%	35%	33%	31%
DSO	192	175	181	219	200	192	201	202	160
DIH	44	46	45	43	41	39	37	37	35
Supplier / CA turnover	234	195	186	172	155	121	105	85	82
Operating cycle	236	221	226	262	241	231	238	239	195
CCC	2	26	40	90	86	110	133	154	113

Table 4. Insolvent companies during the first half of 2018 – historical financial indicators

Source: Insolvency Proceedings Bulletin, Ministry of Public Finance, National Trade Register Office, data processed by the author

According to the information published by the PIR⁵ provided by the National Bank of Romania, the amounts with debit instruments whose payment was refused during the first half of the current year had a total value of approximately RON 2 billion, almost three times the value recorded in the same period of the previous year, respectively RON 0.74 billion. Taking into consideration that the number of payment incidents during the same analyzed period decreased by approximately 15%, the average value of the payment incidents recorded during the current year increased to RON 86K.

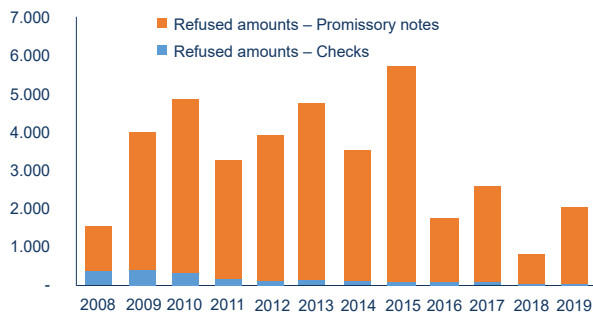


Chart 5. Value of the instruments whose payment was refused (RON MIL)

Source: National Bank of Romania (PIR), Data processed by the author

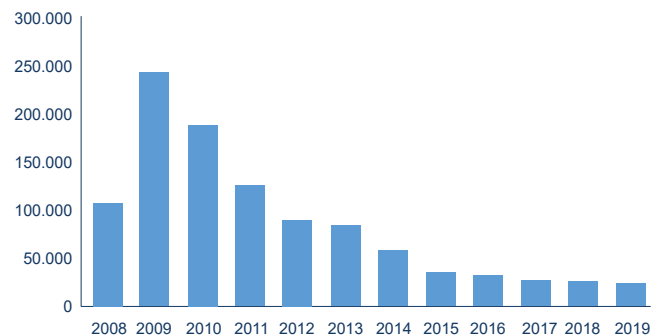


Chart 6. Number of instruments whose payment was refused

Source: National Bank of Romania (PIR), Data processed by the author

The territorial distribution of insolvency cases in the first half of 2019 reflects the general decline at national level. Thus, all regions recorded decreases exceeding 20% of the companies that went insolvent. The only regions registering over 500 insolvency cases during the first half of this year are N-W (520) and Bucharest (509), while N-E (297) Center (286) and S-W (225) are at the opposite end of the scale.

Region	Insolvency cases 1st half - 2019	Insolvency cases 1st half - 2018	Insolvency cases deviation 2019-2018
N-W	520	712	-27%
Bucharest	509	925	-45%
S	458	572	-20%
S-E	416	637	-35%
W	347	484	-28%
N-E	297	530	-44%
Center	286	437	-35%
S-W	225	287	-22%
Total	3.058	4.584	-33%

Table 5. Regional distribution of the insolvent companies

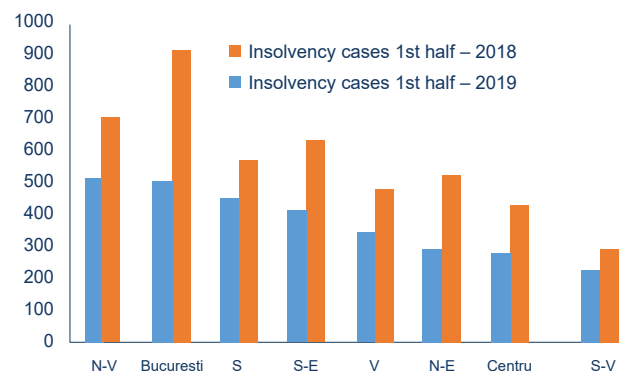


Chart 7: Geographical distribution of insolvency cases recorded during the first half of 2019-2018

Source: Insolvency Proceedings Bulletin, data processed by Coface

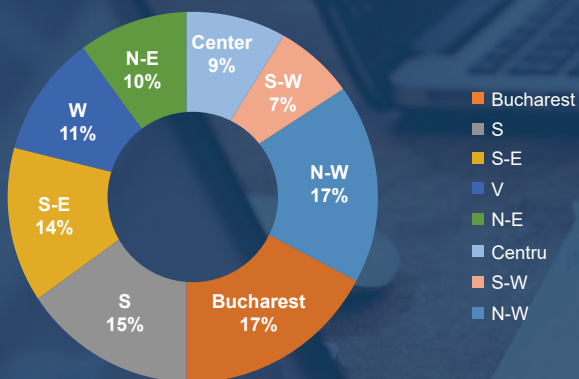


Chart 8: Regional distribution of insolvency cases initiated during the 1st half – 2019

Source: Insolvency Proceedings Bulletin, data processed by Coface

6 EVOLUTION OF THE BUSINESS ENVIRONMENT

The National Trade Register Office has recently published the figures on the evolution of newly registered companies and those that suspended their activity. Analyzing the evolution for the first half of this year, compared to the same period of the previous year, it can be noted the emergence of a destructive spiral signaling a decrease in the level of trust in the prospects of the economy. The number of companies that suspended their activity during the first half of this year is 85,960 companies, an increase by 36% compared to the same period of the previous year.

Disappearance Category	Q1- 2018	Q1 - 2019	Deviation 2019/2018
Deregistration	35.597	62.530	76%
Dissolution	15.751	14.157	-10%
Suspension	8.364	6.637	-21%
Insolvency	3.686	2.636	-28%
TOTAL	63.398	85.960	36%

Table 6. Evolution of the company suspending their activity

The main factors leading to the deterioration of the companies' payment behavior, on one hand, respectively the decrease of the entrepreneurs' level of confidence, on the other hand, are:

- Increase in expenses (especially those related to wages, utilities and fuel);
- Increase in expenses related to interest and bank loan repayment;
- Fiscal unpredictability (uncertainty regarding new fiscal regulations);
- Underground economy in Romania (estimated by the European Commission at almost 32% of the GDP, the highest level in the EU after Bulgaria), allowing unfair competition and difficulty (in some cases, almost impossibility) to be competitive if one carries out 100% clean activities (in accordance with the fiscal regulations);
- Difficulty in finding workforce for wages reflecting the actual productivity.

The underdevelopment of Romanian entrepreneurship is also visible through its excessive polarization in terms of concentrating income and profits among large companies. The largest 1,000 companies being active in Romania concentrate approximately ONE HALF of the income reported by all active companies, this polarization being valid for every year of the last decade! The exact figures as well as the illustration of the polarization of the Romanian business environment are shown in the following table and chart.

Year	TOP 1000	Total business environment
2008	432	864
2009	443	912
2010	470	956
2011	483	1.003
2012	495	1.037
2013	516	1.062
2014	549	1.117
2015	575	1.194
2016	598	1.251
2017	603	1.294
2018	654	1.345

Table 7. Turnover of companies being active in Romania (the values are expressed in RON BIL)

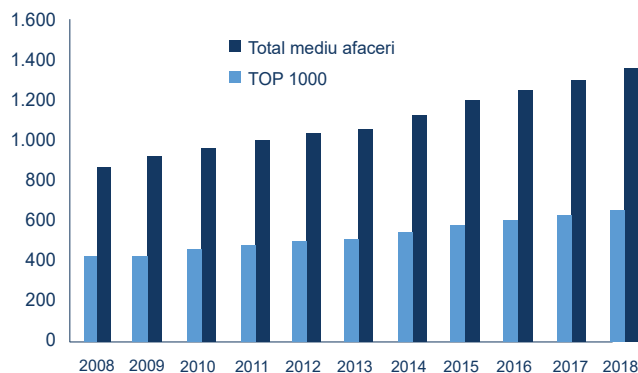


Chart 9. Turnover of companies being active in Romania (the values are expressed in RON BIL)

Source: National Trade Register Office, Ministry of Public Finance, data processed by the author

The over-concentration of income among top companies reflects the underdevelopment of a middle class, which leads to a reduced capacity of the economic system to absorb external shocks propagated during major changes (tax changes, recession, unemployment fluctuations, interest volatility, etc.). The vulnerability of our economy is also fueled by another structural factor: economic dependence on consumption, the latter being strongly correlated with the dynamics of the economic cycle. This dependence can also be noted from the distribution of the largest 1,000 companies being active in Romania depending on the activity sector. Half of the income of the companies being active in Romania is concentrated in the largest 1,000 companies, and half of the latter's income being concentrated in retail (consumption), as it can be noted from the table below.

No	SECTOR	Number	Turnover
1	Wholesale and distribution	285	167
2	Retail	81	136
3	Machinery and equipment industry	100	111
4	Production and supply of electricity, thermal energy, water and gas	46	42
5	Food and beverage industry	68	30
6	Manufacture of chemical substances and products	47	26
7	Metal industry	57	26
8	Transportation	55	22
9	Post and telecommunication services	13	17
10	IT	40	15
11	Manufacture of wood and wood products	37	14
12	Agriculture	28	10
13	Constructions	28	8
14	Other business activities	31	8
15	Manufacture of textiles, wearing apparel and footwear	28	6
16	Sewage and refuse disposal, sanitation and similar activities	21	6
17	Sports, cultural and recreation activities	12	5
18	Hotels and restaurants	5	2
19	Health and social services	5	2
20	Extractive industry	5	1
21	Real estate transactions	3	1
22	Financial services	3	1
23	Other personal service activities	2	0
TOTAL Turnover TOP 1000 companies / 2018 (RON bil.)		1,000	654

Table 8. Sectoral distribution of the income of the largest 1000 de companies being active in Romania (RON BIL)

Source: National Trade Register Office, Ministry of Public Finance



Thus, it becomes clear that the largest 1,000 companies being active in Romania play an essential role in the evolution of local business environment dynamics. These “giant” companies also have bird’s eye view of the industries they operate in (through market leadership positions), customer sectors they serve (due to the extended partner portfolio) and their maturity (the individual experience of the decision-makers combined with the organization’s know-how), taking into consideration that the average age of the largest 1000 companies being active in Romania is 19 (compared to the average existence of a company in Romania is only 10 years).

In this context, it becomes highly relevant to analyze the way in which these companies move, their direction and the decisions they make as their strategy can tell us a lot about the future evolution of the active business environment in Romania. For this purpose, we have analyzed the consolidated balance sheet of these companies for 2018, but also for each year of the last decade to see their trend! The most important balance sheet indicators for these companies during the last decade are shown in the table below.

Year	Non-current assets	Current assets	Inventories	Receivables	Equity	Total debts	Deferred income	Cash	Turnover
2008	158	86	27	44	103	125	16	15	432
2009	169	85	23	47	107	129	18	15	443
2010	168	107	28	63	120	136	20	16	470
2011	177	125	34	73	122	159	21	18	483
2012	193	137	39	81	139	166	24	17	495
2013	202	138	39	79	148	165	28	20	516
2014	209	145	42	81	157	166	31	22	549
2015	213	157	44	83	162	175	35	30	575
2016	223	176	51	94	177	185	37	31	598
2017	238	198	59	107	192	205	39	32	603
2018	242	220	67	119	204	227	42	34	654

Table 9. Balance sheet evolution for the largest 1,000 companies being active in Romania (figures expressed in RON BIL)

Starting from the financial statements filed by the largest 1,000 companies being active in Romania, we have calculated a number of important indicators being reflected in the balance sheet of these companies. The exact figures shown in the following table and the main five conclusions to be highlighted, from my point of view, are as follows:

1. The large companies significantly reduced the investments in 2018 – thus, the share of fixed assets (machinery, equipment, buildings, plants, long-term financial investments, licenses, patents, software applications, etc.) decreased to only 52%, the minimum level of the last decade. Thus, the book value of fixed assets increased only by 1.6% (the weakest growth rate in the last decade), from RON 238 bil. (2017) to RON 242 bil. (2018)

2. The large companies significantly produced in stock – the average inventory turnover increasing at the end of 2018 to the maximum level of the last decade, respectively 38 days (Table 4). Thus, the inventory book value increased more rapidly than the income level (Table 3). In any case, the large companies are much better positioned in terms of the risk of oversize stocks compared to the rest of the companies being active in Romania, as the average inventory turnover at national level increased at nearly 60 days (compared with an average of 50 days 10 years ago). The economic growth pattern reflects these imbalances. Actually, the structure of economic growth remains suboptimal as the inventory variation contributes to the GDP dynamics by approximately two-thirds in 2018, while the investments (gross capital formation) contributes to the total economic growth between 2012 and 2018 with only 10%, and the final consumption contributes with 82% during this period. A more balanced development of economic growth on the main components is necessary, with emphasis on policies increasing the potential GDP and improving the use of production factors (emphasis on increasing the investment, productivity and labor force involvement).

3. The large companies try to take their money from the market, by making all efforts to streamline credit risk management policies and improve debt collection. Thus, even if the average debt collection period increased on average by several days during the recent years for the largest 1000 companies, reaching approximately 66 days during 2018, their performance exceeds by a significant margin the national average of almost 115 days!

4. The large companies capitalize by reinvesting profits and repaying the credits owed to banks and suppliers – thus, the average capitalization level of the largest 1000 companies remained stable during the last few years, being almost 44%. Their capitalization level exceeds by a significant margin the average recorded at a national level, respectively only 25% (the companies being active in Romania having the lowest equity level in the EU)

5. The large companies preserve their treasury, which is noticeable due to the increase in the debt coverage by available cash, which is stable at 15%-17% during the last few years, well over the national average of 11%.

Year	Non-current assets	Inventory turnover (days)	Debt collection (days)	Cash / Debts	Capitalization
2008	65%	23	38	12%	42%
2009	66%	19	39	12%	42%
2010	61%	22	49	12%	43%
2011	59%	26	55	11%	40%
2012	58%	29	59	11%	42%
2013	59%	28	56	12%	43%
2014	59%	28	54	14%	44%
2015	58%	28	53	17%	44%
2016	56%	31	58	17%	44%
2017	55%	36	65	16%	44%
2018	52%	38	66	15%	43%

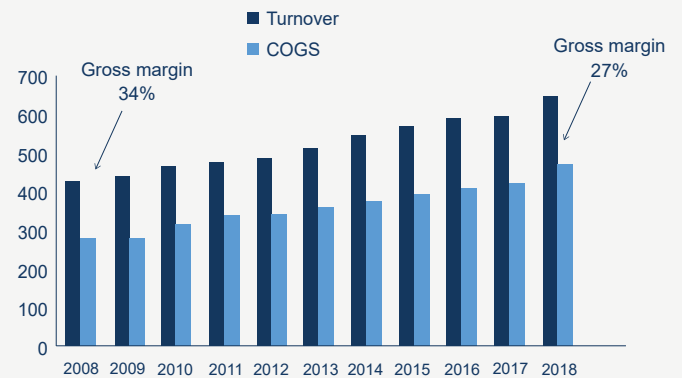
Table 10. . Balance sheet indicators for the largest 1,000 companies being active in Romania

Source – Ministry of Public Finance, National Trade Register Office; calculations made by the author

Also, the evolution of the profit and loss account for the year 2018 reflects a series of challenges for large firms they have to face. Further more, I synthesized in five main conclusions the evolution of the last decade of revenues, expenditures and the main profit margins for the top 1,000 companies active in Romania.

1. Decrease in gross margin – reflecting the increase in pressure exerted by customers and/ or suppliers. Basically, the difference between the sales price (turnover) and the cost of production of goods/ services offered (raw material, commodities and other material or utility expenses) decreased from 34% (2008) to only 27% (2018). Gross margin falls when companies are cutting prices offered on the background of an aggressive commercial war with rival firms, or the cost of purchasing raw materials or purchased goods increases. The only sustainable way to increase gross margin is to make investments capitalized on quality human capital, the mixture between them, leading to a differentiation from competition through innovation. Unfortunately, Romania is bad in both chapters: public, private and foreign investment is below potential, while accelerated emigration has caused the loss of highly trained staff.

Year	Turnover	COGS (*)	Gross margin
2008	432	285	34%
2009	443	285	36%
2010	470	318	32%
2011	483	341	29%
2012	495	350	29%
2013	516	364	30%
2014	549	382	30%
2015	575	394	31%
2016	598	413	31%
2017	603	428	29%
2018	654	478	27%



COGS = eng. Cost of Goods Sold

Table 11. Gross margin 1,000 companies (RON BIL)

Gross margin = $1 - \text{COGS} / \text{Turnover}$

Graphic 10. Evaluation of Gross margin - Top 1,000 Companies in Romania

2. Decrease in operating result – this reflects the deterioration of the companies' ability to generate profit from their core business. For example, the Top 1,000 active companies in Romania reported a revenue growth of around 8% during 2018, but operating profit remained stable at 29 BIL. Thus, the operating profit margin has fallen to just 4.4% in 2018, a level similar to the one recorded during the full impact of the last financial crisis (2009). Poor operating profit and depreciation of the national currency discourage foreign direct investment or local investment. In the context of Romania's very low dividend tax and fiscal and political unpredictability, the incentive to reinvest capital in local companies is diminishing, which means that our country is losing investment and development opportunities.

Year	Turnover	EBIT	EBIT %
2008	432	25	5,8%
2009	443	19	4,2%
2010	470	18	3,9%
2011	483	16	3,4%
2012	495	19	3,8%
2013	516	21	4,1%
2014	549	24	4,3%
2015	575	24	4,1%
2016	598	31	5,2%
2017	603	29	4,8%
2018	654	29	4,4%

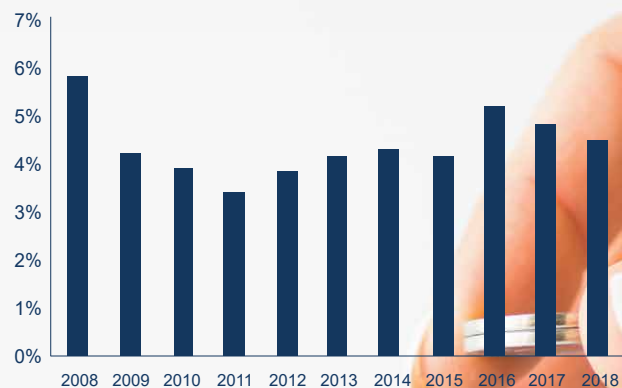


Table 12. Operating result evolution (RON BIL)

Assets use time = $\text{Corporal asset} / \text{Write-off}$

Graphic 11. Operational profit evolution



3. Use of assets over a longer period of time – due to lower investment. The largest 1,000 companies active in Romania registered the lowest rate of depreciation in the past decade, namely only 6,6%, a similar level found in 2008 (just before the impact of the financial crisis). Basically, this reflects that if the current strategy were to be perpetuated over time, the average use of current assets would be about 15 years, the longest use cycle of the last decade. The period of time is extremely long, given the increasing speed of innovation and the development of new products/ technologies, which reflects the low competitiveness of Romanian companies.

Year	Write-Off	Fixed assets	Write-Off %	Number of years of active use
2008	10	158	6,6%	15,17
2009	12	169	7,4%	13,59
2010	14	168	8,3%	12,09
2011	14	177	8,2%	12,24
2012	17	193	8,8%	11,41
2013	17	202	8,6%	11,69
2014	19	209	9,3%	10,72
2015	20	213	9,3%	10,74
2016	20	223	8,8%	11,31
2017	21	238	8,8%	11,33
2018	16	242	6,6%	15,13

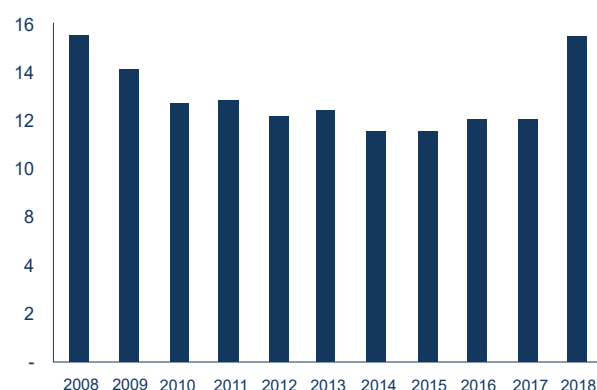


Table 13. The evolution of investments (RON BIL) and asset use horizon (year)

Graphic 12. The evolution of asset use horizon

4. Increase in the cost of adjusting trade assets – due to the recognition of losses from non-performing receivables or inventories that expire or lose value. Both the receivable collection rate and the average rotation time of inventories recorded maximum levels during 2018, reflecting the increased risk of non-capitalization of current assets (working capital does not work). Thus, the largest 1,000 companies active in Romania recorded expenditures for the adjustment of current assets during the year 2018 in value of 14 BIL, three times the annual average and almost 7% of the current assets.

Year	Current active adjustments	Stock	Receivables	Adjustments %
2008	3	27	44	4%
2009	4	23	47	6%
2010	4	28	63	5%
2011	5	34	73	5%
2012	5	39	81	4%
2013	5	39	79	5%
2014	5	42	81	4%
2015	6	44	83	5%
2016	5	51	94	3%
2017	5	59	107	3%
2018	14	67	119	7%

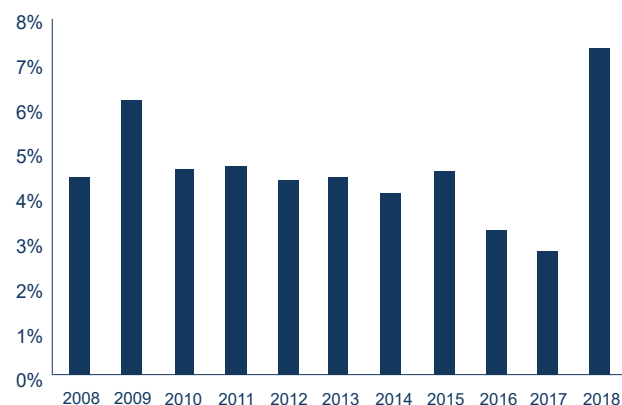


Table 14. The evolution of current asset adjustments (RON BIL)

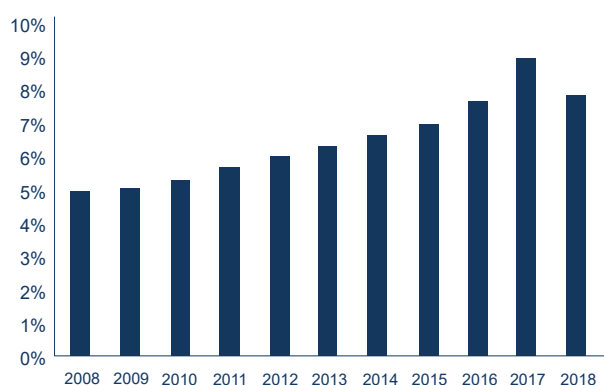
Graphic 13. Adjustment expenses / Current assets

5. Tightening the labor force (increasing wages above productivity, together with difficult task of quickly finding the necessary workforce for ongoing projects) leads to the need to improve production processes (automation, logistics efficiency). Thus, the largest 1,000 companies active in Romania reported a 14% decrease in the number of employees, although their consolidated revenues increased by 8%. These adjustments were possible due to the efficiency of processes and less of new investments, a strategy implemented after many years of experience that led to the accumulation of know-how and the development of human capital. Process optimizations are needed in large companies because the right people are finding it harder and at much higher costs than in the past (without a full justification for increasing quality, practical skills, and human resource qualifications). Thus, the average salary reported by the 1,000 largest companies in Romania during the year 2018 was 5,718 RON, up almost 10% compared to the previous year, and almost double the 10 years ago. In this context, the share of wage spending has risen from 5% (2008) to almost 9% (2017), marginally falling to 8% in 2018. One thing is clear: robots will take up more and more jobs .

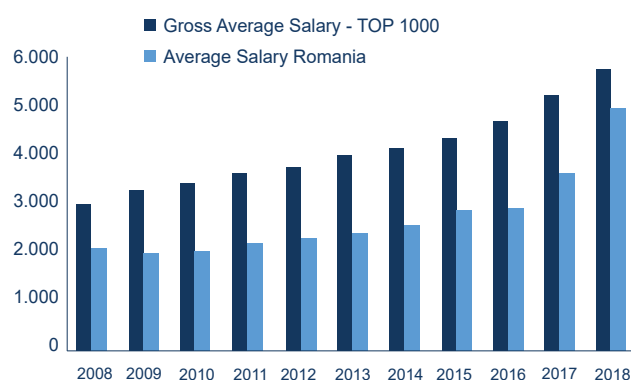
Year	Business figure (MLD Ron)	Număr salariați	Turnover/ No. of employee/ month	Share Payments / Turnover	Gross Average Salary Top 1000	Medium Salary Romania
2008	432	607.360	59.273	5%	2.971	2.098
2009	443	571.290	64.620	5%	3.297	2.023
2010	470	607.489	64.473	5%	3.412	2.067
2011	483	632.824	63.604	6%	3.626	2.209
2012	495	669.674	61.597	6%	3.759	2.343
2013	516	683.551	62.907	6%	3.991	2.430
2014	549	734.253	62.308	7%	4.156	2.582
2015	575	778.066	61.584	7%	4.331	2.880
2016	598	825.788	60.346	8%	4.665	2.918
2017	603	868.569	57.854	9%	5.219	3.662
2018	654	749.359	72.729	8%	5.718	4.938

Table 15. The evolution of wage costs for the top 1,000 companies

Resuming the financial behavior of the largest 1,000 companies being active in Romania in 2018, by comparing their dynamics to the evolution of the last decade, I find a clean-up of the balance sheet by reducing debts, maintaining capitalization at a high level, postponing investments (and making those that are strictly necessary or time-sensitive, respectively, that will not occur in the future), quick collection of receivables, slower sale of inventories and preservation of liquid assets. In other words, the large companies being active in Romania are preparing for difficult times! I wonder why?



Graphic 14. Personal expenses / Turnover



Graphic 15. Evolution of gross average salary (RON)

7 METHODOLOGICAL SPECIFICATIONS

The newly initiated insolvency cases as of 2010, on the basis of the data published by the IPB (Insolvency Proceedings Bulletin) were taken into consideration in this paper. For example, all companies with insolvency procedures initiated in the first half of 2019 (according to the Insolvency Proceedings Bulletin) and which are not recorded as operational in the middle of July 2019 (according to the National Trade Register Office) were deemed newly initiated insolvency cases during the first half of the current year. The first half of July allowed the correction of most update gaps between the Insolvency Proceedings Bulletin and the National Trade Register Office. The analysis of the financial indicators for the companies taken into consideration was based exclusively on the financial statements filed with the Ministry of Public Finance during the analyzed period on the basis of the data processed by Coface.

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