WHOLESALE OF PHARMACEUTICAL GOODS

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COFACE ROMANIA

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CONTENT

1 EXECUTIVE SUMMARY

For the current analysis, data pertaining to 1,662 companies having submitted their 2017 financial statements and having generated a consolidated turnover of RON 28.6 BILLION was aggregated. Companies in the analyzed sector (4646 Wholesale of pharmaceutical goods) have recorded, in 2017, a positive progress in their income, with such income increasing by around 4% compared to 2016, with profits slightly decreasing.

STRONG POINTS

1. Positive progress in income, which increased by around 4% compared to 2016.

2. The level of indebtedness fell significantly at a consolidated level (76.4% in 2016 and 75.9 in 2017).

3. A positive money conversion cycle at a consolidated level (18 days in 2017), double compared to the 2016 level.

4. Three quarters of companies (75%) hold a current liquidity above 1, considering that it increases at aggregate level (from 1.22 in 2016 to 1.24 in 2017).

5. Quite sufficient autonomy in events of force majeure, of 174 days in 2017, if all balance receivables are collected (from 152 days in 2016).

6. The CCR (Cash Coverage Ratio) factor increasing from 100% in 2016 to 118% in 2017, with a diminished risk on liquidities, if it fell below 100%.

7. A decreasing number of incidents during the first two quarters of 2019, same as the number of companies having recorded such incidents.

8. A decrease in the number of cases registered against companies in this sector during the previous 9 years (except for 2017), considering that 2019 could bring a new minimum for such cases during the entire period.

9. Over one third of companies (40%) have made investments in 2017, recording an improper Capex/ Write-Off ratio.

10. Increase in the number of outlets, which, in 2018, has reached the peak for the previous 6 years: 10,196 facilities.

VULNERABILITIES

1. Almost half of the analyzed companies (46%) recorded a fall in the turnover.

2. More than half of these companies (58%) recorded a decrease in net profit, which also led to a decrease in consolidated profits.

3. Almost a quarter of companies (23%) fail to achieve a profit from their core (operating) business.

4. More than half of the companies in the analyzed sector (56%) had 100% of short-term debt in 2017.

5. The negative progress of own capital ratings (from 27.6% in 2016 to 23.6% in 2017), following a consolidated capitalization of 24%.

6. Covering interest expenses via the operating profit/loss, at a consolidate level, displays a negative trend for the past year, reaching 4.3 in 2017.

7. 46% of companies have a level of indebtedness in excess of 80%, with 31% showing a negative capitalization risk.

8. The total turnover share of the top 10% companies in this sector was maintained at a very high level (91.6% in 2017).

9. The high amount to debt to the State Budget, for the previous 2-3 years, related to the number of public companies with outstanding debt.

10. More than half the companies in the sector, as analyzed by Coface, were assessed as being medium and high risk (57%).

2 LIQUIDITY AND BUSINESS INDICATORS

The current release recorded over the entire industrial sector, throughout 2017, was 1.24, with a reduced working capital level, being somewhat exposed to negative shocks and volatility (decrease in income or failure to collect receivables). The level of short-term debt coverage via the net treasury has increased from 9% in 2012 to 20% in 2015, while until 2017, it was down to 12%. Such trend was recorded pursuant to increases in the operating cycle (the aggregate duration of DIH and DPO) from 171 days (2015) to 175 days (2017). The marginal decrease of the Cash Release indicator is recorded pursuant to the decrease in the collection of receivables and the increase of supplier and bank balances, with the average payment duration of short-term debt for 2017 being 157 days, on an identical scale to the one recorded during the previous year (157 days in 2016), considering a slight improvement in the level of indebtedness. The cash conversion cycle becomes positive starting with 2014, thereby recording a level of 18 days during 2017, double on the previous year. Its positive figure is granted by maintaining the figure of the debt payment term and an increase in the average duration of collection of receivables (124 days in 2017) and that of inventory held (50 days in 2017, up from 44 in 2016), thereby indicating the absence of use of the trade loan received from suppliers.

Companies in the analyzed sector have recorded a force majeure autonomy of 174 days with all balance receivables currently collected, up on the previous year (174 days, compared to 152 days).

As for the analyzed sector, the CCR remained above the threshold of 1, while in 2017, it recorded a level 118%, up on the level recorded during the previous year, namely, 100%. Its trend is connected to an increase in the current release level (with a current rate of 1.24). The cash level recorded for the sector is generated internally, considering that the profit margin is on a slight descending slope, and the average supplier payment term is unchanged.

Considering the high exposure level of companies in the analyzed sector for the failure to collect receivables, it is of essence to analyze the progress of the average Days Sales Outstanding in time. We find that the companies active in the "Wholesale of Pharmaceutical Goods" sector have reported decreasing average Days Sales Outstanding compared to the period between 2013 - 2015, at a standstill in 2016 and up in 2017, exceeding the nationally reported threshold. Therefore, the average Days Sales Outstanding recorded for the analyzed sector was up to 122 days, which was the level recorded for 2015-2016, to 124 days in 2017, while the same national average recorded for the same national period was down from 102 days to 93 days.

Release Indicators	2017	2016	2015	2014	2013
Current Release	1,24	1,22	1,24	1,17	1,08
Quick Release (QR)	0,92	0,94	0,95	0,90	0,85
Cash Release (Cash R)	0,12	0,16	0,20	0,12	0,09
Defensive Interval Ratio (DIR)	174	152	165	160	178
Cash Coverage Ratio (C.C.R.)	118%	100%	109%	109%	108%

Source: MF, Data processed by Coface

Business Indicators	2017	2016	2015	2014	2013
DSO (Days Sales Outstanding)	124	122	122	136	155
DIH (Days Inventory Held)	50	44	49	47	46
DPO (Days Payables Outstanding)	157	157	165	174	205
Operating Cycle (Inventory + Receivables)	175	166	171	183	201
CCC (Cash Conversion Cycle)	18	9	6	8	-4

Source: MF, Data processed by Coface

3 PROFITABILITY AND SOLVENCY INDICATORS

The net consolidated output in the sector, for 2017, was 3.4%, down on 2016 (3.9%). More than half of companies recorded a decrease in the net output for 2017, while 25% of companies recorded a net loss during the same period, with 14% of companied recording a loss in excess of -20% and 22% of companies recording a profit in excess of 20%.

The 75.9% level of indebtedness in the sector is down on 2016. In spite of these, the level of indebtedness, in conjunction with a short-term debt orientation of almost 90%, indicates funding of the business mainly using short-term sources, which is not sustainable on the long term (considering that 56% of companies have 100% short-term oriented debt). Please note that 31% of companies have recorded a negative capitalization level (equal to an indebtedness exceeding 100%), while for 19%, the level of indebtedness exceeds 80%.

Please note the ROE indicator (profit rate related to own equity) which is down to 23.6% in 2017, despite a relatively high sector capitalization (~24%), a trend determined by the increase of the consolidated figures related to own equity, with the net output down.

From a profit capitalization point of view, no dividends were paid out in 2017 (at a consolidated level), which also had an impact on the decrease of the level of indebtedness to 75.9%, although during the previous year, it amounted to around RON 1 BILLION.

The level of covering interest expenses via the operating output (EBIT/ Ch. with Interest) was increasing throughout the analyzed period, thereby reaching 27.3 in 2016, just for it to significantly decrease to 4.3 in 2017, most likely as a consequence of the decrease in the consolidated net output, and the increase in the consolidated own equity figures.

Profitability Indicators	2017	2016	2015	2014	2013
Net output: Turnover	3,4%	3,9%	3,1%	2,4%	3,0%
EBIT: Turnover	3,9%	4,4%	4,8%	4,0%	4,6%
ROA (Return on Assets)	5,5%	6,2%	4,7%	3,6%	4,0%
ROE (Return on Equity)	23,6%	27,6%	20,1%	17,2%	24,5%
OROA (Operating Ret. on Assets)	6,8%	8,0%	8,2%	6,4%	6,9%

Source: MF, Data processed by Coface

Solvency Indicators	2017	2016	2015	2014	2013
Indebtedness Level (Debt: Assets)	75,9%	76,4%	75,7%	78,2%	82,8%
Funding perspective (DTS: Debt)	89,9%	90,7%	90,2%	90,7%	93,7%
Fixed Tangible Assets: Assets	15,2%	15,4%	15,0%	14,2%	9,3%
EBIT / Ch. with Interest	4,3	27,3	18,0	12,7	10,5

Source: MF, Data processed by Coface

4 INVESTMENT AND SECTORIAL TRENDS

Throughout 2017, companies in the analyzed sector have allocated significant investment for extension of fixed assets. Therefore, upon removing the impact of the sale of tangible assets or the adjustment for depreciation, the CAPEX share of total assets was 14% for 2017, down on the previous year, when the CAPEX share of total assets was 18%. The write-off average recorded at sectorial level fell by 1% in 2017 compared to 2016, achieving 7%. The ratio between capital expenses (CAPEX) and wipe-off were 207% in 2017, meaning that investment in fixed assets covered the fixed assets wiped-off. From 2013 to now, we can speak of an investment process, except for 2013, when the CAPEX share was 43%, and equity expenses failed to cover the wiped-off value of fixed assets. In this setting, over one third of companies (40%) carried out investment in 2017, recording an improper Capex/ Wipe-off ratio.

By using the Herfindahl-Hirschman index in order to assess the concentration level, we see that the sector analyzed is marked by an average to high focus level, with the HHI indicator for each of the previous five years being below 1000. However, the level of cumulated market share held by the 10 largest players is 56%. Also, the total turnover share of the top 10% companies in the sector was maintained at a very high level (92.9% in 2012, with 2017 achieving 91.6%).

Investment Indicators	2017	2016	2015	2014	2013
CAPEX pace (Capex1: Tangible Assets 0)	14%	18%	17%	10%	3%
Wipe-off pace (Lag 1 year)	7%	8%	9%	10%	8%
CAPEX /Wipe-off	207%	214%	185%	104%	43%

Source: MF, Data processed by Coface

Progress of sector companies	2017	2016	2015	2014	2014	2014
Number of registered companies	6,6%	7,3%	9,2%	8,1%	8,1%	8,1%
Number of exit companies	9,9%	9,0%	15,0%	12,7%	12,7%	12,7%
OUT : IN Ratio	1,50	1,23	1,64	1,57	1,57	1,57
Number of 10% companies	166	162	167	151	151	151
Total turnover share of the top 10% companies	91,6%	91,8%	91,5%	91,6%	91,6%	91,6%

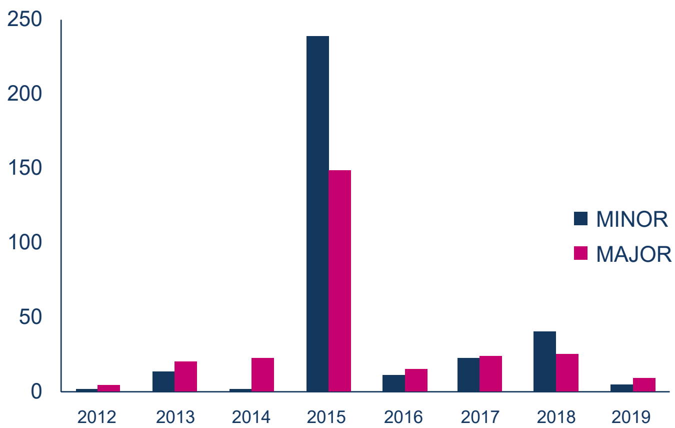
Source: MF, Data processed by Coface

5 PAYMENT BEHAVIOR

Payment incidents

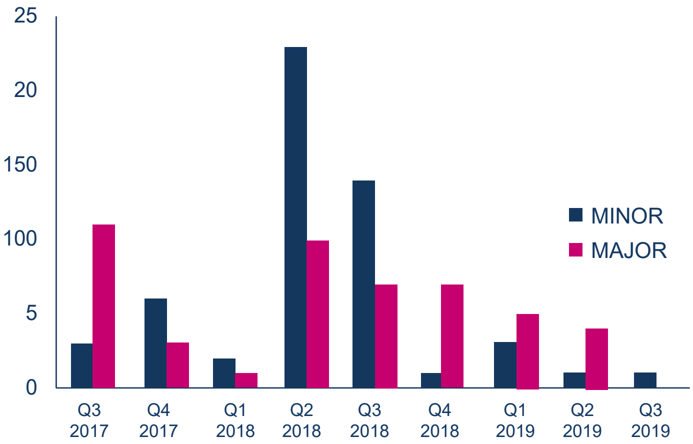
From a point of view of banking incidents, we have analyzed their progress for companies with a turnover > 1 MIL EUROS in the sector, until July 2019. Therefore, it is obvious that 2015 had the highest banking incident frequency, mostly minor incidents, with this fact being determined by a single company that had recorded 333 incidents during that year. During the past three year 2016 - 2018, the number of incidents was growing, similarly to the number of companies having recorded incidents. Also, if we analyze the 2016 -2018 period from a quarterly perspective, one may see that most incidents were recorded in the second quarter of 2018. During the first two quarters of 2019, a reduction in the number of such events is seen, but we cannot however state that such trend would also hold up for the rest of the year.

Progress of banking incidents for the companies in the analyzed sector, for the previous 8 years



Source: CIP, Data processed by Coface

Progress of banking incidents for the companies in the analyzed sector, for the previous 9 quarters

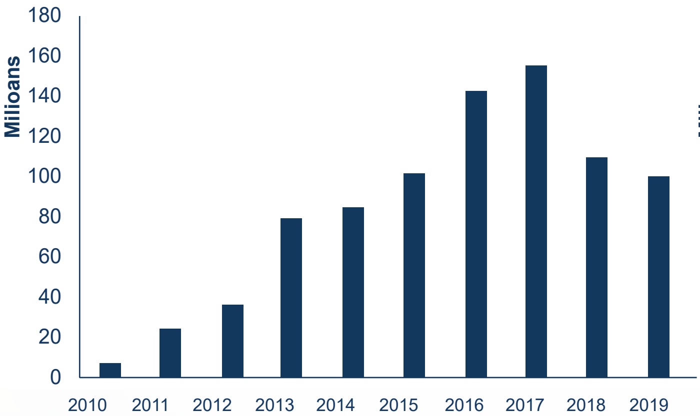


Source: CIP, Data processed by Coface

Liabilities to the State Budget

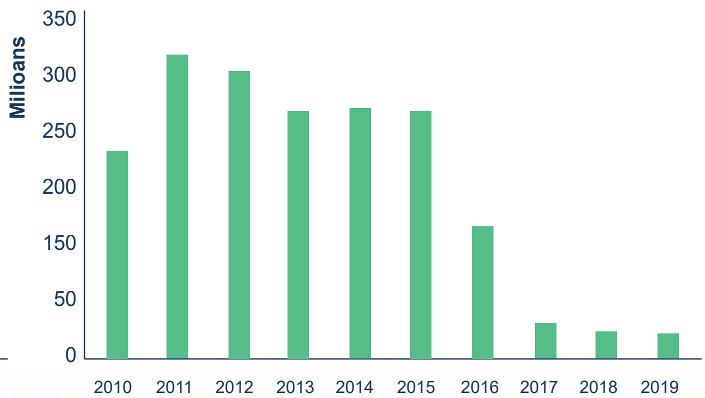
With regard to any liabilities to the State Budget, the data published by the National Agency for Fiscal Administration, for all companies in this sector, highlight the following: along with a decrease in the number of companies having recorded debts (particularly due to the thresholds set by the NAFA, starting with the dues outstanding on 31.12.2016, based on which only the list of companies recording debt beyond a certain threshold is to be published), the amount of debt was also down, approaching the level of 2015. It is obvious that the maximum, from the perspective of liabilities to the State Budget, was recorded in 2017, after a significant increase took place in 2016, as well. In 2016, around 10% of companies in this sector recorded liabilities to the State Budget, and such status improved significantly in 2017 and in 2018 and is also maintained in 2019. Also, compared to the number of companies having recorded liabilities to the State Budget in 2017, 2018 and 2019, the amount of liabilities remains extremely high.

Progress of banking incidents for the companies in the analyzed sector, for the previous 8 years



Souce: NAFA, Data processed by Coface

Progress of banking incidents for the companies in the analyzed sector, for the previous 9 quarters



Souce: NAFA, Data processed by Coface

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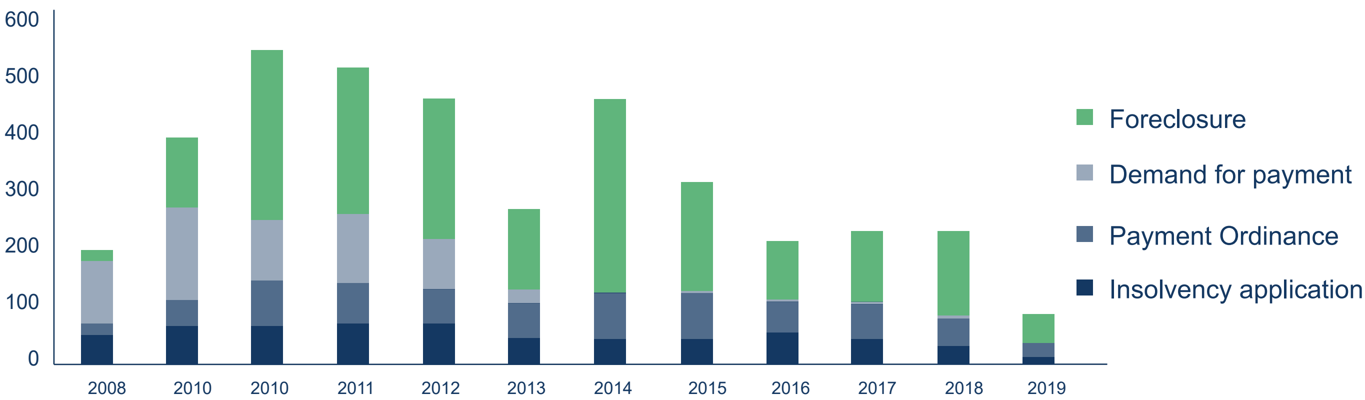
Court Proceedings

With regard to legal proceedings, one may notice a slight increase of shares against the companies in this sector in 2017 compared to the previous year. The lowest number of proceedings was recorded in 2008 (before the crisis), while a year after, their amount would grow by more than 3.5 times. 2019 could stand as a minimum for the court proceedings in this segment if the trend of the first 6 months of the year is held up.

The highest level was recorded in 2010. An important aspect to point out is that the number of demands for payment tends to stabilize to below 5 per year starting with 2014, thereby progressing in the same direction as the number of foreclosures (except for 2017). The majority of court proceedings continues to be the amount of foreclosures.

Progress of court proceedings during the previous 12 years



Source: The Just Portal, Data processed by Coface

Distribution of court proceedings for the previous 12 years and type of proceeding

Procedure	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Insolvency Application	49	64	64	67	70	45	40	41	54	40	28	11
Payment Ordinance	20	45	77	72	56	61	82	80	50	58	50	23
Demand for payment	105	156	105	114	84	19	2	1	5	8	2	1
Foreclose	19	119	291	251	242	138	328	185	98	119	108	50
TOTAL	193	384	537	504	452	263	452	307	207	225	188	85

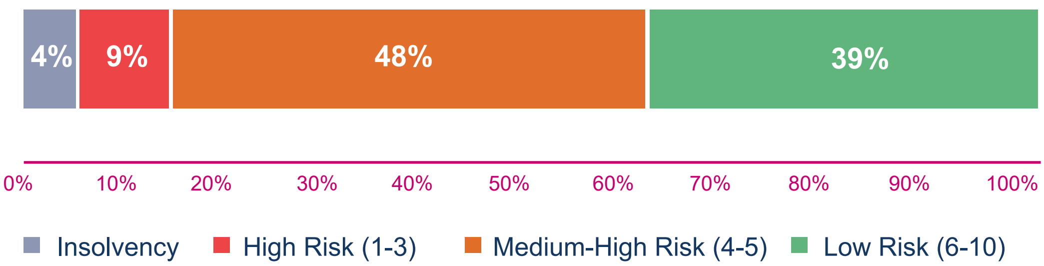
Source: The Just Portal, Data processed by Coface

6 DISTRIBUTION OF @RATING COFACE AND SECTOR TRENDS

Distribution of @rating Coface

From the total of 1,662 companies active in 2017, Coface analyzed 212 companies ~ 12.8%, but with a 79% turnover share of the consolidated sector turnover. In this setting, most companies (48%) are classed by Coface as medium-high risk companies, with rating 4 or 5. The extremes are occupied, with 9%, companies with a high insolvency risk (ratings 1-3), and 39% of low risk companies (ratings 6-10), respectively.

Coface @rating – distribution of companies analyzed for 2016



Source: Coface

Sector Trends

The data published by the NIS with regard to the trade balance of pharmaceutical goods, shows the current existence of a deficit throughout the analyzed period (2013-2018), such deficit achieving its peak in 2018. Romania's main export partners, outside the European Union, are: Russia, the United Arab Emirates and the United States of America, and these three already represent 55%.

Trade Balance (thousand €)

Pharmaceutical Goods		2013	2014	2015	2016	2017	2018
Import Figures	Total	2.638.343	2.609.812	2.588.560	2.737.625	2.939.210	2.994.563
	Of total: European Union	2.181.076	2.148.753	2.253.632	2.392.755	2.613.414	2.734.487
Export figures	Total	940.346	852.895	856.709	707.260	750.102	754.616
	Of total: European Union	700.753	639.430	648.121	506.499	511.267	548.449
Trade Balance (Exports-Imports)	Total	-1.697.997	-1.756.917	-1.731.851	-2.030.365	-2.189.108	-2.239.947
	Of total: European Union	-1.480.323	-1.509.323	-1.605.511	-1.886.256	-2.102.147	-2.186.038

Source: NIS, 9999,00 - highlighted – temporary data

With regard to a household's average monthly expenses required to purchase non-food items, less than 10% are spent on pharmaceutical goods, with such items displaying a relatively settled price throughout the previous year (according to the price index). On a whole, Romanians have spent monthly, in 2018, around RON 77 on Medical goods, devices and equipment, with such class of expenses being outweighed by three other types of non-food items: tobacco, fuel and clothes.

Average monthly expenses per household, used for the purchase of non-food items per categories of items (Lei RON)

Year	2013	2014	2015	2016	2017	2018
Medical goods, devices and equipment	56,93	57,2	60,48	61,1	68,49	76,57
Human-use medication	56,0	56,1	58,2	58,0	64,7	72,6
Therapeutic devices and medical equipment	0,44	0,71	1,88	2,66	3,31	3,61
Share of total expenses allocated for health	11,5%	11,6%	11,3%	10,2%	9,3%	9,0%

Source: NIS, 9999,00 - highlighted – temporary data

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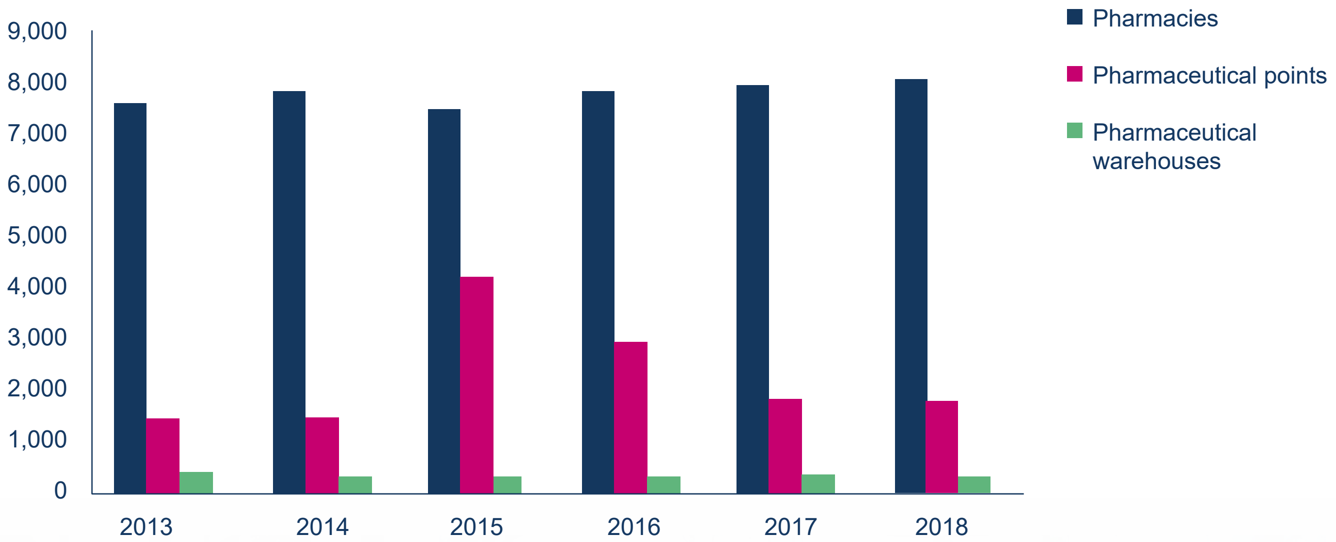
The increase by more than RON 20 of average monthly expenses, compared to 2013, is also reflected in the opening of new pharmacies, pharmaceutical points and pharmaceutical warehouses which, in 2018, managed to reach the peak for the previous 6 years: 10,196 facilities. As for the three classes mentioned, as property type, the private one is predominant. Given the progress of imports, the amount of people's expenses on medication, we may safely say that in 2018 again, the sector acknowledged growth.

Number of pharmacies, pharmaceutical points and pharmaceutical warehouses, based on property type

Year	2013	2014	2015	2016	2017	2018
Pharmacies	7.560	7.825	7.758	7.802	7.945	8.147
Pharmaceutical points	1.400	1.461	1.727	1.693	1.755	1.806
Pharmaceutical warehouses	267	275	272	259	247	243

Source: NIS

Progress in the aggregate number of pharmacies, pharmaceutical points and pharmaceutical warehouses for the 2013 – 2018 period



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