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ROMANIAN SECTOR OF IT PRODUCTS' DISTRIBUTION - DECLINING SALES, BUT POSITIVE FINANCIAL EVOLUTION

Last period is considered problematic from a commercial point of view, under the auspices of declining sales of the analyzed firms, but this is not reflected in the financial performance of the companies, the sector registering a positive net result, according to a profitability rate of 1.75% of turnover. The level of profitability achieved in 2012 is thus similar to the one registered at the end of 2008, given that the volume of sales within the sector declined with 27% in this period. It can also be noticed an increase of investments, which covered the degree of depreciation, and that were funded based on a balanced politics, which respects the principle of the maturity date.

According to the financial statements published by the Ministry of Finance, the companies whose main activity was the "Wholesale of computers, computer peripheral equipment and software" during 2012 generated a total turnover of 5.6 BRON and 5.491 jobs.

Although lately we noticed a positive evolution of the financial performance in the sector, the negative dynamics of the sales volumes requires an analysis of multiple factors to identify the triggers behind this situation.

Thus, if considering **the distribution of these companies by turnover**, it can be concluded that:

- Almost 25% of the companies that filled their statements for 2012 did not really develop any activity; their declared turnover was 0;
- 44% of the active companies registered a turnover of less than 100 K EUR/ year (2012), the weight of the total turnover of this segment being only 1%;
- Only 119 companies in this sector registered an annual turnover of more than 1 MEUR, generating about 92% of the revenues registered within the entire sector.

The sector of the IT products and software distribution is quite mature; more than half of the active companies have more than 10 years of experience in the market. These companies have the most important economic and social role in the sector, being the ones that generate 87% of the overall turnover and concentrates 85% of the total number of employees.

Following **the structure of the profit & loss account** for the companies in the sector and its impact on the balances registered in the consolidated balances, there can be distinguished the following conclusions:

- 2012 wasn't favorable from a commercial development point of view, 45% of the total active companies in the sector registered a contraction of the turnover compared to the previous financial year;

- For 2/3 of the analyzed companies, 2012 was a profitable year, while the remaining 35% registered net losses, and for half of these the losses exceeded 20% of the annual turnover;
- The profitability situation by the size of turnover indicates an exclusive concentration of losses within the companies with a turnover of less than 500 KEUR and an aggregate negative net result, while the rest of the segments registered profit;
- From the perspective of the net result evolution in 2011 - 2012, half of the companies have succeeded to improve the net income in 2012, while the other half has registered a decrease.

The significant difference between the negative evolution of turnover and the positive dynamics of the net result indicates a change in the financial structure of the companies, which faced a significant process of restructuring.

Taking into consideration the resources of attracting funding and their allocation for long-term investments, we can say that:

- During 2012, the analyzed companies have allocated significant investments to expand the fixed assets. By eliminating the impact of the sale of tangible assets, the CAPEX share in total assets was 17% in 2012;
- Companies within the distribution of IT products & software registered a positive working capital in 2012, given that the long-term funds exceeded the level of long term investments (tangible fixed assets) by 20%;
- In terms of numerical share of indebted companies, the figures indicate that 5 of 10 companies show a capitalization degree under the sectorial average.

Companies operating in the distribution of IT products & software are characterized by a balanced funding of the operational cycle through a very close correlation of the debt payment terms with the operational cycle (the average cumulative turnover of stocks and receivables).

Within this sector, the operational cycle is 172 days, given that the stocks registered a rotation with an average duration of 50 days and receivables of 122 days. Taking into consideration an average duration of short-term debts rotation of 167 days, the cash's net conversion cycle registered 4 days, very close to the equilibrium value.

Payment terms were extended by 30 days, which means that companies in the analyzed sector have implemented the slower rotation of current assets by identical marginal increase of the payment terms to suppliers.

The evolution of the companies operating within the distribution of IT products & software impacts the course of 2013

The incomes contraction and competition above average registered within the sector impacted the evolution of the companies during 2013. Specifically, 15% of the analyzed companies have closed their activity, with an average of 10 years activity, an aggregate turnover of 313 MRON, while the total debts were 336 MRON.

In terms of social impact, we noticed that the number of disappeared jobs caused by the closing of



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198 companies in 2013 is even higher than those newly created by the firms founded during the last 4 years. This trend is further impacting the recovery capacity of the sector, already affected by the financial crisis.

For 2013, Coface analyzed during 2013, at the request of its business partners or the direct monitoring of the exposures from the Insurance Division, 36.000 unique companies with a total turnover of about 180 BEUR, representing approximately 70% of the turnover of all active companies nationwide.

Of these, 210 companies are operating in the analyzed sector. Even if from a numerical point of view, the analyzed sample seems small (with a numerical weigh of only 17%); these companies are the most representative, because they generate no less than 85% of the total turnover registered within the entire sector.

From Coface analysis resulted that 65% of these companies posed a risk of insolvency higher than average, 1/5 of them recording a high risk.

From the payment behavior's perspective, about 41% of companies make payments very slowly, or do not respect their contracts and only 26% make payments without delay.

"Despite multiple challenges arising from the financial crisis, companies that operate within the IT Distribution sector preserved their financial performance. Thus, although the income registered during 2012 have declined by 27% compared to 2008, but the total profitability remained the same, with a net result of 97 MIL. RON. This fact was highlighted by both the solid financial statements of the medium and large companies and the increasing access of population to communication & technology. Thus, according to the latest figures published by NIS for 2013, 56% of the Romanian households own a computer and 71% of them belong to urban areas. At the same time, mobile phones & smartphones are the devices used to access the Internet - a proportion of 61.8%." mentioned Constantin Coman, Country Manager, Coface Romania.

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