panorama

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ROAD FREIGHT TRANSPORTERS ANALYSIS - 2014

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1. THE FINANCIAL SITUATION OF COMPANIES IN THE SECTOR

1.1 Summary regarding financial indicators

Coface Romania analysis has targeted companies with the main activity 4941 (road freight transporters).

On the basis of this selection resulted a total of 26,406 companies that have submitted the financial statements for 2012 activity. According to the financial statements published by the Ministry of Finance, the companies whose main activity was the "road freight of goods" during 2012 generated a total turnover of 24 BRON and 130,233 jobs, owning a share of 3.5% of the registered number of employees within the entire economy.

If considering the distribution of these companies by turnover, it can be concluded that:

- Almost 25% of the companies that have filed their statements for 2012 have not really developed any activity;
- Half of the active companies registered a turnover of less than 100 KEUR/ year, but the share of the value in the total turnover of this segment is only 8%;
- Only 904 companies in this sector registered an annual turnover of more than 1 MEUR, representing 3% of the total active companies, but generated about 63% of the revenues registered within the entire sector.

Table 1. Distribution of the companies in the sector by turnover

Turnover category (EUR)	Number of companies	Number %	Total turnover (EUR)	Turnover %	Turnover average (EUR)
0. No activity	6.351	24%	-	0%	-
1. 0 - 100K EUR	13,634	52%	429,428,120	8%	31,497
2. 100K - 500K EUR	4,652	18%	1,015,568,633	18%	218,308
3. 500K - 1000K EUR	865	3%	612,945,166	11%	708,607
4. 1M - 5M EUR	765	3%	1,566,295,224	28%	2,047,445
5. 5M - 10M EUR	84	0%	577,733,441	10%	6,877,779
6. 10M - 50M EUR	50	0%	965,701,834	18%	19,314,037
7. 50M - 100M EUR	4	0%	227,392,450	4%	56,848,113
Over 100M EUR	1	0%	118,244,956	2%	118,244,956
Total	26,406	100%	5,513,309,823	100%	208,790

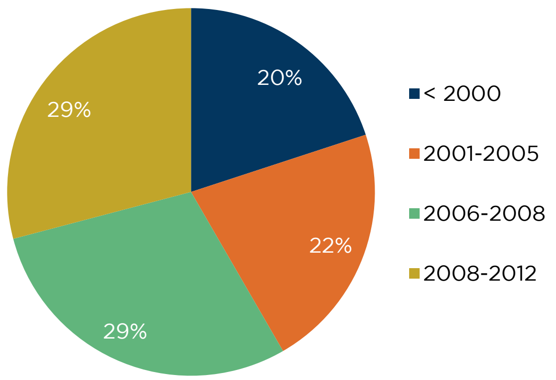
Source: Ministry of Finance, Data processed by Coface

The sector of the road freight transporters is quite mature; more than half of the active companies being founded before 2005. These companies have the most important economic and social role in the sector

Thus, these companies:

- generate 63% of the overall turnover in the sector;
- 67% of the total value of assets and liabilities.

Chart 1. Distribution of active companies by year they were founded



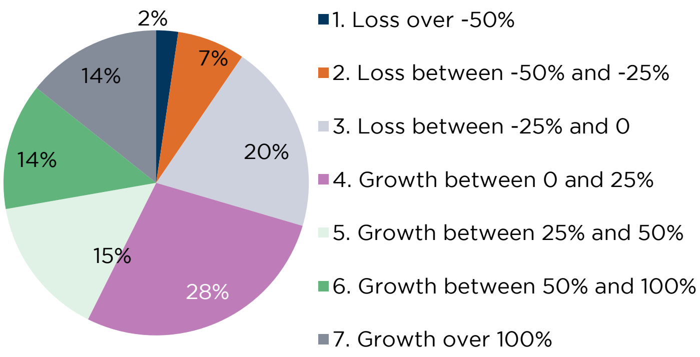
Source: Ministry of Finance, Data processed by Coface

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 was a favourable year in terms of commercial evolution; only 3 of 10 active companies registered a contraction of their turnover. The rest, registered revenue growth and 43% of them had turnover increases of over 25%. Distribution of the companies in terms of turnover increases is detailed in Chart 2;
- Despite this, the net result has evolved much weaker, both in terms of absolute values and its dynamics. Thus, as can be seen in Chart 3, which illustrates the numerical distribution of the active companies by the reported net result related to turnover, half of the companies recorded a net loss at the end of 2012. For half of these, the loss was bigger than 20%. In counterpart, only 7% of the active companies registered higher profits more than 20% in the same analysed period. Since the net result recorded in the entire sector is -1%, we assume that larger losses are recorded, especially by the companies with size below average, while large size firms recorded a less net margin percentage, but superior in absolute values;
- In addition to final yield analysis recorded during 2012, it is important to analyse the performance dynamic of the companies in the sector. Thus, Chart 4 presents the numerical distribution of the companies in terms of net results evolution in the period 2011-2012, illustrating whether the company's performance has improved/ worsened in the analysed period. Although 7 of the 10 companies recorded an increase in turnover in the period 2011-2012, 50% out of which were marked by a decrease in net results. Moreover, two of the 10 companies recorded profits in 2011 but registered lost in 2012.

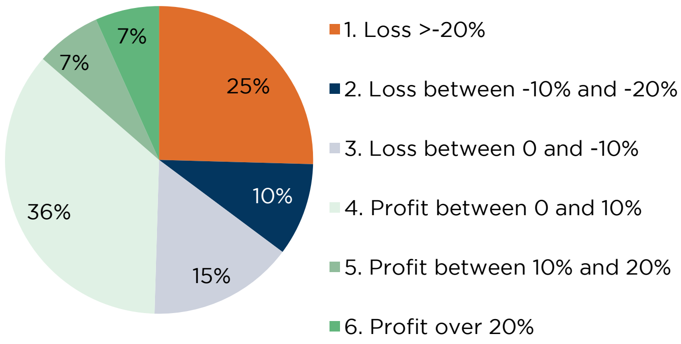
The figures illustrated in Charts 5, 6 and 7, that capture the distribution of the operating result and the assets and equity return confirm the previous conclusions.

Chart 2. Turnover Index Distribution 2012/ 2011



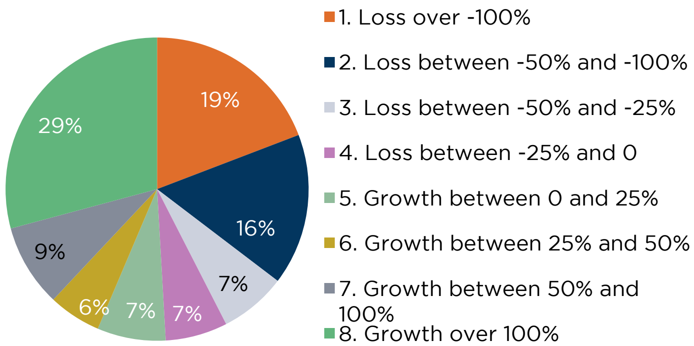
Source: Ministry of Finance, Data processed by Coface

Chart 3. Net Result Sector Distribution %



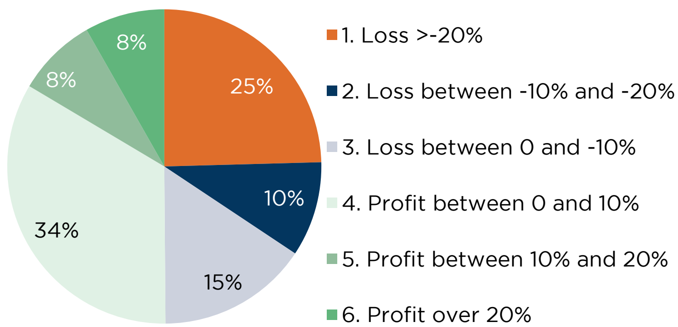
Source: Ministry of Finance, Data processed by Coface

Chart 4. Net Result Index Distribution 2012/ 2011



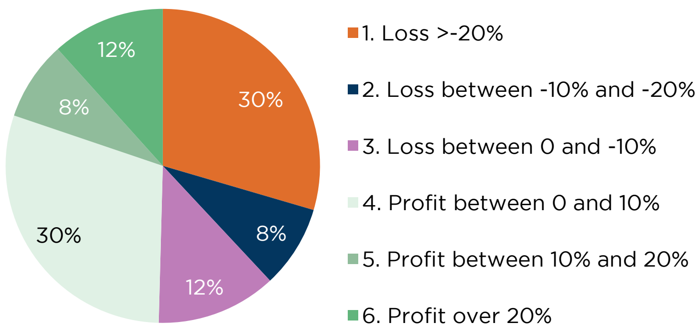
Source: Ministry of Finance, Data processed by Coface

Chart 5. Sector Distribution EBIT %



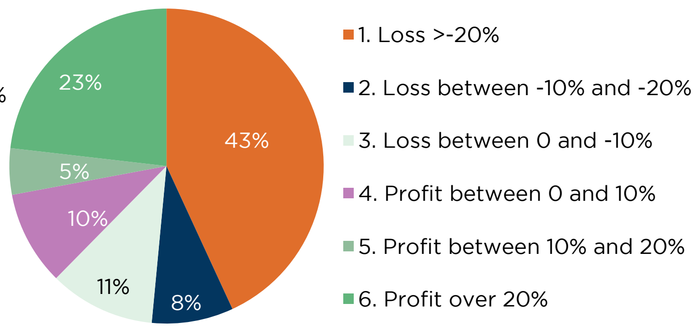
Source: Ministry of Finance, Data processed by Coface

Chart 6. ROA Distribution



Source: Ministry of Finance, Data processed by Coface

Chart 7. ROE Distribution



Source: Ministry of Finance, Data processed by Coface

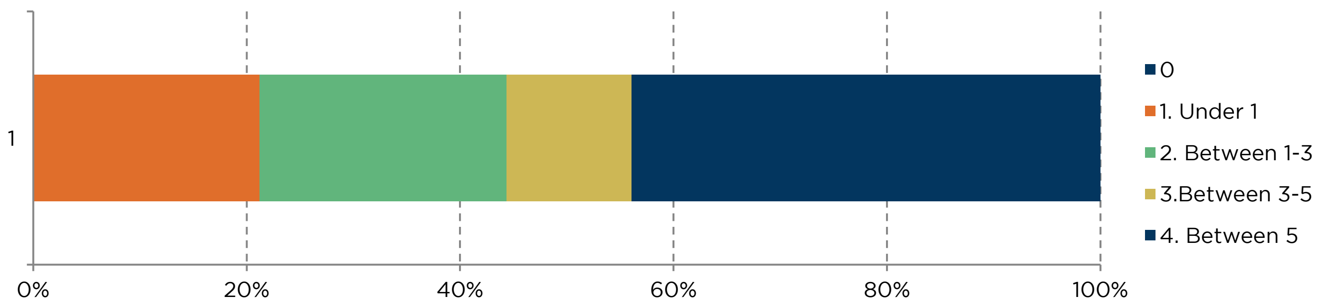
The significant difference between the positive development of the turnover and the negative dynamics of the net result indicates a top-down load within the profit & loss account with an increase of the operational and financial expenses. Thus, as it will be noticed later, the share of depreciation and financial expenses increased compared to financial turnover. To quantify the exact impact, financial analysis standards recommend two intermediate thresholds:

- Degree of Operating Leverage = ∆%EBIT/ ∆%Turnover: which indicates the operating income elasticity to a change by 1 percentage point of the turnover;
- DFL = Degree of Finance Leverage = ∆%Net Result/ ∆%EBIT: which indicates the net income elasticity to a change by 1 percentage point of the operating income.

The two leverages are generating the total leverage or DTL = Degree of Total Leverage, which indicates the elasticity of net income to changes by 1 percentage point of the turnover. A high[1] leverage is typical to companies with a high operating or financial costs, which have very small profit margins, or even losses. The sectors which registered an increasing share of companies with a high level of DTL, are inclined to a competitive environment, marked by an increased aggression, given that companies will try to protect their market share to cover operating or financial large costs.

Given that consolidated turnover at sectorial level increased by about 14% and consolidated loss increased from -12 MRON to -179 MRON, the total leverage is -92, indicating a massive deterioration of the analysed sector performance. The consolidated results are also confirmed by the distribution analysis of all companies in the sector according to the total leverage. Thus, 44% of active companies registered a total leverage over 5, which reveals that the road freight transportation sector is marked by the competition above average level of aggressiveness.

Chart 8. Distribution - Degree of Total Leverage [Δ%RN/ (Δ%Turnover - absolute values)



Source: Ministry of Finance, Data processed by Coface

[1] By normal values of NLT, financial methodology analisys is considering any absolute value > 5

Using the Herfindahl-Hirschman[2] Index to assess the level of concentration, we observe that the road freight transportation sector is marked by a very low concentration, HHI indicator for each of the last five years being around 20. This is confirmed by the relatively low cumulated market share held by the top 10 players, respectively 10%[3].

Thus, the road freight transport of goods captures the main features of a monopolistic competition, marked by:

- A large number of companies mostly independent, each one with a reduced capacity to influence or control the market;
- A large number of buyers;
- Reduced barriers for traders to entry or exit on the market;
- Reduced barriers for buyers who can find relatively easily substitute services.

In this very aggressive competitive context, in which many companies are characterized by a high leverage, it is important to study the balance sheet structure and how the analysed companies finance their long-term investments or the need for short-term working capital. This analysis is even more important since the leverage can amplify the positive results when the market grows in profitable conditions, but, equally may amplify the losses in a falling market

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

- During 2012, the analysed companies have allocated significant resources for investments to increase the number of fixed assets. Thus, eliminating the sale impact of the tangible assets or impairments, CAPEX[4] share in total assets was 30% for 2012, given that 2 of 10 companies have doubled the value of their assets. Given the rhythm of annual depreciation recorded during 2012, 23% no powers extend fixed asset base and long-term investment horizon. Thus, the share of tangible fixed assets in total assets increased in 2012 with 46%, compared to the level recorded in the previous year (40%);
- Companies in the road freight sector were marked by a slightly negative working capital in 2012, given that long-term funds[5] were not sufficient to cover long-term investments (tangible fixed assets). This is mainly due to an insufficient degree of capitalization for undertaken investments, so that the share of the equity in total permanent capital was only 25% and the average capitalization level of the analysed companies was 9%.

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[2] $\text{HHI} = \sum_{k=1}^{n}(MS_k * 100)^2$; where MS_k represents the market share of company k

HHI Index must be interpreted as follows:

- Values smaller than 1.000 indicate a market with low level of concentration
- Values between 1.000 - 1.800 indicate a market with moderate level of concentration
- Values bigger than 1.800 indicate a market with high level of concentration

[3] The sectors with high level of concentration register a cumulated market share of over 50% of the top 10 players

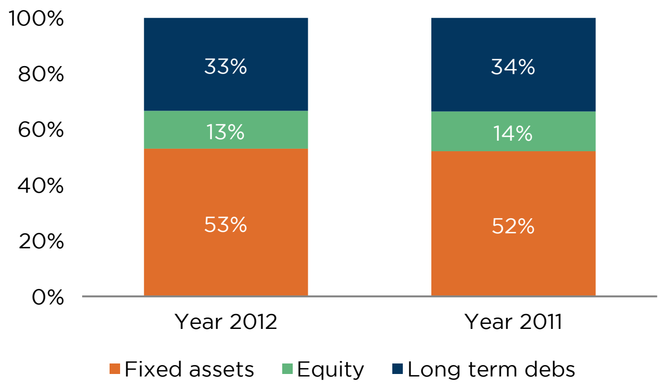
[4] CAPEX = Capital Expenditure ∆ Tangible fixed assets + Depreciation

[5] Permanent capital = Long term debts + Equity

- The data illustrated in Chart 10 confirm a very high numerical share of indebted companies. Specifically, 5 of the 10 companies register a negative capitalization rate (equivalent to a debt greater than 100%), which are predominantly small or medium sized companies. Moreover, the funding resources are mainly focused on short-term, given that 54% of the companies have 100% short-term debts and for 17% of them, they represent more than half of total liabilities.

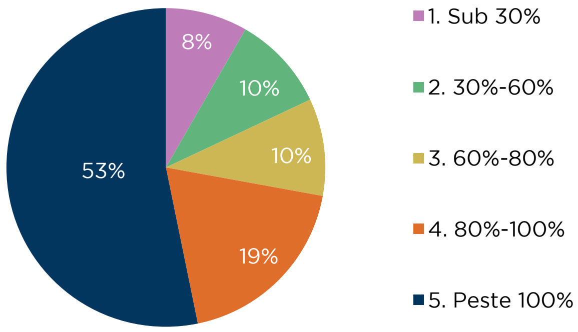
In such circumstances, the companies recorded an average extension of the payment terms, due to the deterioration of the working capital and the cash conversion transition cycle on negative values.

Chart 9. Working Capital Structure, Sector Average



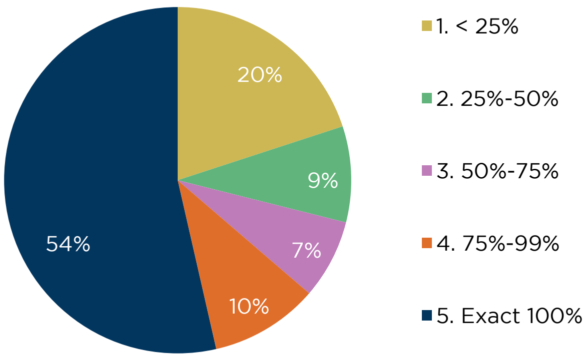
Source: Ministry of Finance, Data processed by Coface

Chart 10. Degree of Indebtedness Distribution



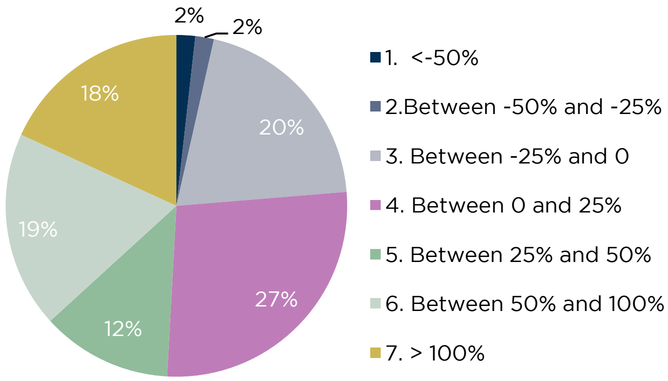
Source: Ministry of Finance, Data processed by Coface

Chart 11. Distribution DTS: Total Debts



Source: Ministry of Finance, Data processed by Coface

Chart 12. CAPEX Distribution: Fixed Assets

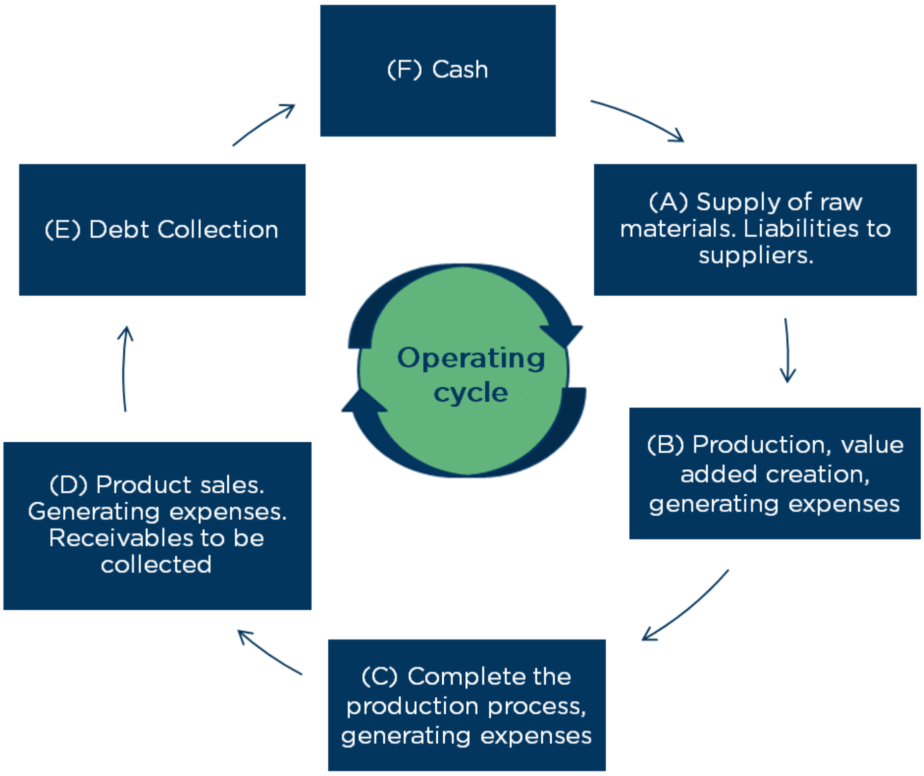


Source: Ministry of Finance, Data processed by Coface

Companies operating in the field of road freight transportation are characterized by an aggressive funding of the operational cycle, through debt mainly focused on a short-term, low degree of capitalization and a net result very weak, compared to the turnover and its dynamics. Therefore, financing the operational cycle and cash conversion speed is very important to assess the short-term financial balance.

Why is important to understand the operational cycle?

- To understand the process by which the business consumes and generates cash at the operational level;
- To appreciate the business funding need and to assess whether it is appropriate for that business;
- To appreciate the need for investment in that business and to assess whether the investment decision is appropriate for that business.



The reason to undertake a business is to generate more cash at end of the operational cycle than it was at the beginning through value added, producing a product with market demand. However, if the price of raw materials, the production costs and the price of end products are changing, this cycle can generate losses. Also, if a company is not properly managing its operational cycle phases, supplying raw materials for an extended period of time, paying supplier credit for a too long period and paying suppliers too quickly, can generate losses (negative operating cash flow). Another situation in which can occur a negative cash flow is when the company is growing fast and is locking up significant amounts in stocks and is raising the debts to obtain large orders. In contrast, in case of the companies in decline or recession, apparently they can register a positive cash flow from the sales of existing stocks, which are not replaced with new ones.

Mathematically, the operating cycle is given by the formula: CCC=DIH+DSO-DPO, where:

CCC= Cash Conversion Cycle

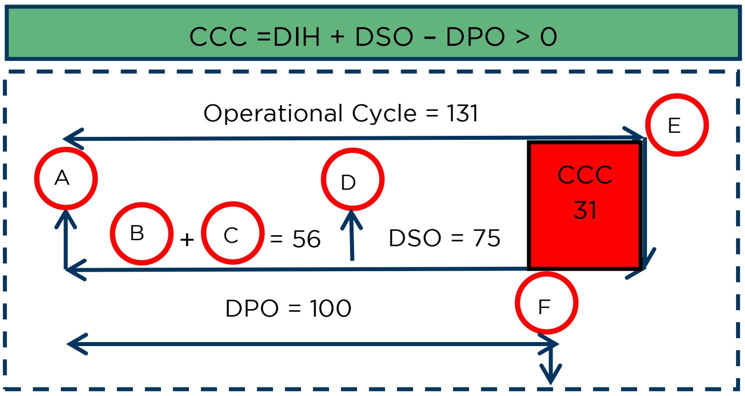
DIH = Days of Inventory on Hand

DSO = Days Sales Outstanding

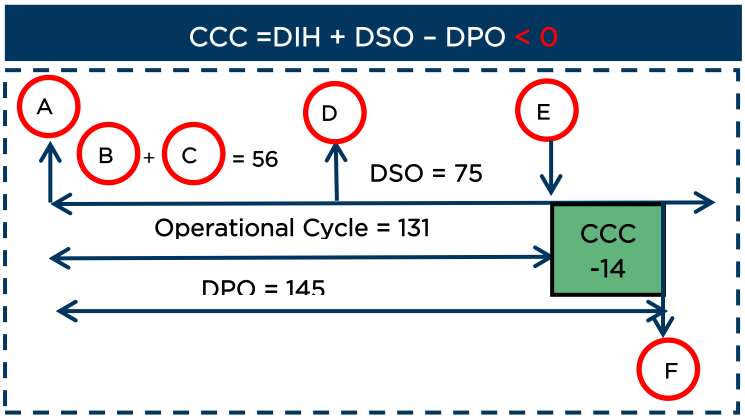
DPO = Days payable outstanding (on short term)

In practice, depending on the values of each variable in the equation, there may be two situations:

- Positive conversion cycle - a situation in which the company pays suppliers faster than manages to sell stocks of end products and to collect money from the customers. Firms with a positive operating cycle need elevated short-term funding.



- Negative conversion cycle - situation in which the company pays its suppliers only after he manages to sell the products and to collect money from the customers. This policy leads to preservation of liquidity and access to net credit provider, but it is not sustainable on the long term if negative values are far below the average practice in the industry.



For companies operating in the road freight transport field, stocks are very low; the average length of rotation is 13 days. Instead, is being observed that the analysed companies pay with delay their debts to suppliers and based on increasing balances to suppliers and the banks faster than the advance debt, the dynamics primarily caused by extending the deadlines for collection and allocation of short term resources to long term investments (the principle of resources maturity is not respected, which increases the risk of a financial unbalance).

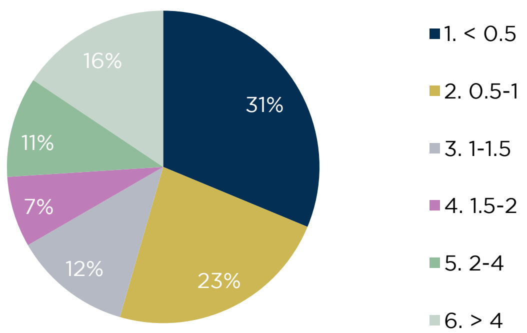
The current liquidity recorded in the entire sector during 2012 was 0.90, this value being equal with a negative working capital (working capital). Trends confirm the liquidity deterioration of the analysed companies, given that the indicator for 2011 was 1.05 and for 2010 was 1.2.

Decreasing liquidity indicators is recorded due to increased balances for suppliers and banks, the DPO's[6] recorded in 2012 was 132 days, up from the level recorded the previous year, 120 days. Given that the average length of the operating cycle[7] in 2012 was about 100 days, net operating cycle was -26 days.

This means that the analysed firms have redistributed some of the funds raised on short term (running overdue invoices to suppliers, ensuring a constantly growing supplier-credit and increasing debt balances for the banks) for long-term investments, given that the level of capitalization was very low and the revenues, while growing, did not result in a net positive result.

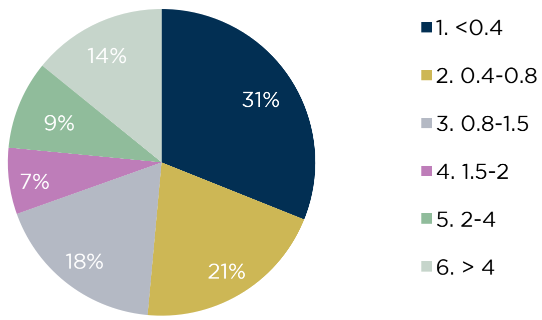
The following Charts (13 - 19) highlight these conclusions by showing numerical distribution of the companies according to different levels of the analysed indicator. It is worth noting that 6 of 10 companies pay their debts to suppliers later, compared to their debt collection period and the payments are made on average after 90 days of the invoice (the revenue).

Chart 13. Distribution 2012 – Current Liquidity



Source: Ministry of Finance, Data processed by Coface

Chart 14. Distribution 2012 – Immediate Liquidity



Source: Ministry of Finance, Data processed by Coface

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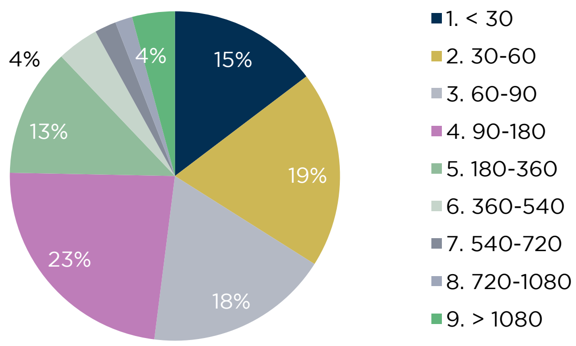
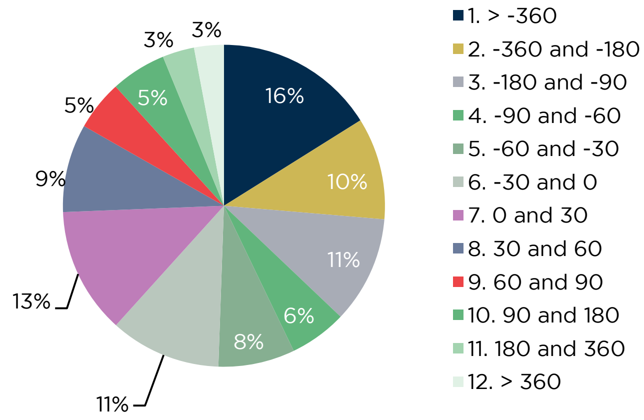
[6] DPO = Days of Payables Outstanding
[7] CO (Operational Cycle) = DIH (Days of Inventory on Hand) + DSO (Days of Sales Outstanding)

Chart 15. Distribution 2012 - CO



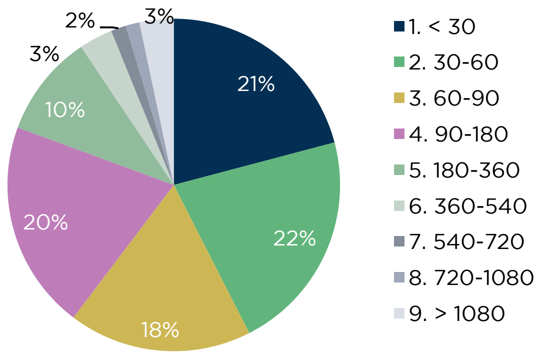
Source: Ministry of Finance, Data processed by Coface

Chart 16. Distribution 2012 - CCC



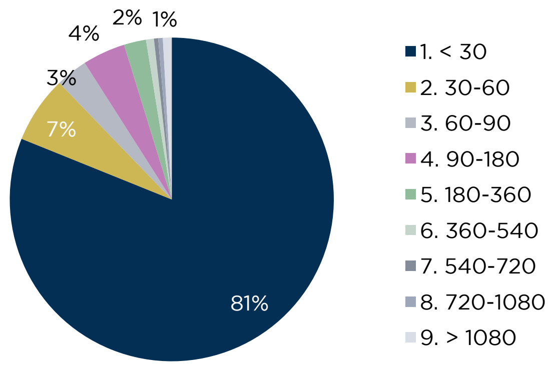
Source: Ministry of Finance, Data processed by Coface

Chart 17. Distribution 2012 - DSO



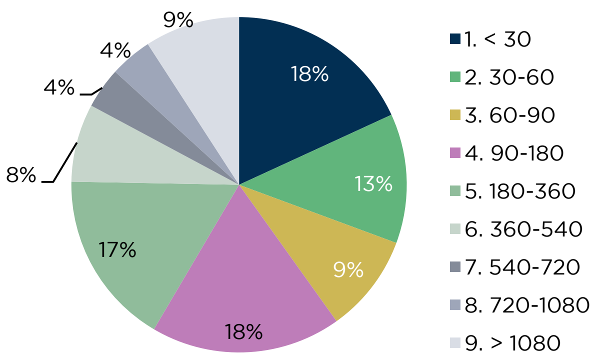
Source: Ministry of Finance, Data processed by Coface

Chart 18. Distribution 2012 - DIH



Source: Ministry of Finance, Data processed by Coface

Chart 19. Distribution 2012 - DPO



Source: Ministry of Finance, Data processed by Coface

Technical bankruptcy of a company is not involving the market value of the assets (even the most marketable) in correlation with the total debts, but rather denotes insufficient cash flow compared to the current outstanding obligations. Thus, except the cases of fraud or malice prepense, the risk of insolvency is amplified when the company has a very precarious liquidity and an uncertain horizon (less predictable) for business continuity[8] (which often is outlined especially by the orientation of short-term debts, a very low degree of capitalization and a very low share of tangible fixed assets in total assets or below the sector average, all these defining a situation where the exit strategy is very simplified).

A liquidity analysis of the companies from the road haulage sector is completed by investigating the cash-flow, which can be seen in the actual transactions of payments and receipts for all operational activities, financial or investment.

An interest is the operational liquidities, because they are the source for financial destinations (reimbursement of borrowed capital) and investments (particularly in fixed assets). Unfortunately, few companies realize and submit these statements to authorized institutions and the main reason lies in terms of the legal obligation.

Based on Coface assessment, a total of 3,000 companies meet this obligation to submit the cash flow situation. Of all the indicators derived from the cash flow, the ratio of operational liquidity and short-term debts is the most obvious to determine the extent to which a company is able to generate enough cash from his activity to cover the debts in less than one year. The rules for financial analysis recommend positive and higher values than 0.5 for this indicator.

The trustworthiness of liquidity indicators determined by the balance is lower than the one determined by analysing the liquidity statement, because it confirms the actual liquidity of a company during the financial year. Even if these are available only in a small proportion, an indirect method can be used to estimate the operational liquidity. Based on Coface's own calculations, we chose to determine the operational liquidity through the indirect method. The figures confirm once again that the effective liquidity problems may exist also in the companies which apparently recorded a positive working capital, the risk of insolvency determination is involving a much deeper analysis of the actual liquidities of a company and is able to generate during the consecutive financial exercise.

Looking at the next table, can be seen that about 46% of the companies operating in road freight transport, recorded a positive working capital, but for 60% of them this effective liquidity is negative or does not cover 50% of short-term debts. Thus, a rapid analysis of the balance could lead to misleading conclusions because these companies do not have sufficient liquidity to cover short-term

[8] "Going concern" - principle according to which the company will indefinitely continue the activity

Table 2.

Current rate/ CFO:DTS	Negative	0 - 0.5	0.5 - 1	Over 1	Total
Under 0.5	1,334	3,077	775	321	5,507
0.5 - 1	1,017	2,173	571	228	3,989
1 - 1.5	683	917	308	203	2,111
1.5 - 2	622	301	310	178	1,411
2 - 4	775	352	286	483	1,896
Over 4	1,330	171	152	1,136	2,789
Grand Total	5,761	6,991	2,402	2,549	17,703

Source: Data processed by Coface

Also, if a company is profitable, it doesn't mean that presents a low risk of insolvency. Positive net result (after tax incidence) is only an amplification of future liquidities, given that both revenues and expenses from CPP are monetary and non-monetary items. The risk of insolvency is significantly determined by the extent to which the debt service is being covered by available liquidities (safe, no potential or future), and it is preferable that the latter to represent the availability of own resources (not borrowed).

As shown in the following table, 6 out of 10 companies that have registered positive returns in 2012 have both a negative or insufficient cash flow, compared to short-term debts. These companies are marked in red colour and represent the firms that have prioritized the commercial result in the prejudice of the prudential one. Suppliers of these companies shouldn't be impressed by the profits recorded by their partners, but should question the quality of these, given that the results are not sustainable due to very low level of liquidity. The financial analysis standards highlights that the speed recovery from an average or contraction of profits is raising proportional with their non-monetary share.

In contrast, only 17% of all companies from the analysed sector which registers losses show a sufficient liquidity to cover the short-term debts. Thus, it can be said that an operating loss is equivalent to liquidity problems in a proportion of 83%, while reporting profits shouldn't be enough to grant a commercial loan/ exposures since 60% of these profits are not are monetary.

Table 3.

Net Result/ CFO:DTS	Negative	0 - 0.5	0.5 - 1	Peste 1	Total
Under -50%	915	834	276	119	2,144
-25% ~ -50%	679	700	134	92	1,605
-25% ~ 0%	1,876	2,278	559	380	5,093
0% ~ 25%	2,067	3,026	1,318	1,598	8,009
25% ~ 50%	131	111	78	253	573
Over 50%	93	42	37	107	279
Grand Total	5,761	6,991	2,402	2,549	17,703

Source: Data processed by Coface

In the study conducted by Coface, opted for an analysis of the correlation between the dynamics of turnover and effective liquidity ratios, obtaining the same conclusions as those listed in the previous paragraph, we found that 70% of the firms that reported an increase in turnover, in reality they encountered liquidity issues. This confirms that the commercial development of the analysed companies in 2011 - 2012 was not a qualitative one in terms of revenue (they exhibit volatility and a low degree of monetary persistence). The conclusions are supported by the figures presented in the following table:

Table 4.

Turnover Index/ CFO:DTS	Negative	0 - 0.5	0.5 - 1	Over 1	Total
1. -100% ~ -75%	496	308	84	73	961
2. -75% ~ -50%	493	434	114	104	1,145
3. -50% ~ -25%	757	768	183	212	1,920
4. -25% ~ 0%	1,124	1,343	356	489	3,312
5. 0% ~ 25%	1,058	1,457	488	596	3,599
6. 25% ~ 50%	494	781	264	314	1,853
7. 50% ~ 75%	267	390	143	154	954
8. 75% ~ 100%	178	262	86	86	612
9. 100% ~ 500%	511	774	245	247	1,777
BASE EFFECT	192	294	104	85	675
No Info/No asset	191	180	335	189	895
Grand Total	5,761	6,991	2,402	2,549	17,703

Source: Data processed by Coface

2. ALTMAN Z-SCORE METHODOLOGY

Given the multiple and complex nature of the risks previously documented, an overall picture (macro) can be obtained following a bottom-up analysis, starting from a microeconomic approach and consolidating later the results at industry level. One of the commonly used and known models of sectorial risk analysis (starting from the granulate degree of all companies in the sector), is the Altam Z-score methodology:

$Z=0.717 * X_1+0.847 * X_2+3.11 *X_3+0.420 * X_4 +0.998 *X_5$; where:

X_1	Working Capital/ Assets	Reflects liquidity. A very low proportion of the working capital (especially negative values for more than 3 consecutive years) in total assets may raise funding problems for the company.
X_2	Reported Results Balance / Assets	Reflects reserves and investment strategy of the company. Lower or decreasing values of reported results (figure on balance, the equity component) may indicate a decreasing trend of the profits or reserves erosion due to recent year's losses.
X_3	Operating Result/ Assets	Reflects the operating result and efficiency of using the assets to generate operating income. Lower values for several consecutive years may indicate a deterioration of the result from ordinary activities (basic) of the company.

X_4	Shareholders' equity/ Assets	Reflects the structure of financing and self-financing ability of the company. Lower values indicate high dependence on external funding and reduced perspectives of additional funding.
X_5	Turnover/ Assets	How effectively the company uses its assets to generate income. The value is recommended to be close to the industry average. Low levels may indicate that too much capital is locked in assets. High values may indicate that the company has too few assets for the potential sales level.

Interpretation of results:

Z< 1.20 => high probability of insolvency;

1.20 < Z < 2.9 => medium probability of insolvency;

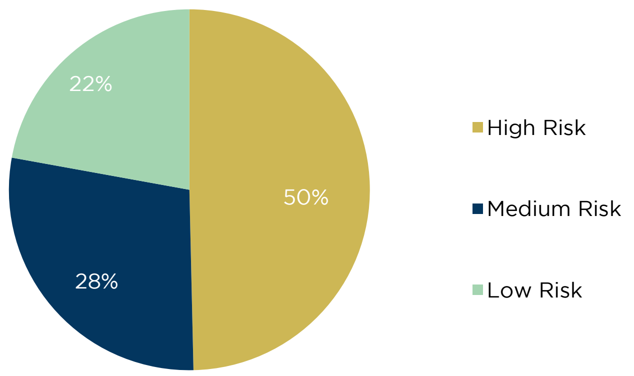
Z > 2.90 => low probability of insolvency.

Of the 26,406 companies operating in the analysed sectors which have submitted the financial statements for 2012, a total of 17,703 have submitted the financial data in the format required, in order to calculate the indicators from the model previously described. The sample is relevant, given that it generates about 96% of the turnover of the entire companies' portfolio.

Analysing the consolidated results, it can be observed that:

- 50% companies pose a high risk of insolvency
- 28% companies pose a medium risk of insolvency
- 22% companies pose a low risk of insolvency

Chart 20. Altman Z-Score - Sector Risk distribution



Source: Data processed by Coface

The delicate financial situation of the firms in the sector, marked especially by the poor operational performance and the poor liquidity has left its mark on the evolution of companies during 2013. Specifically, 4,295 companies from road transportation goods sector have ceased their activity (with an average of 12 years of activity, a cumulative turnover of 1.25 BEUR given that the total debt exceeded 2.5 BRON).

The volume and the calibre of the companies that have ceased activity during 2013 are approximately equal to the number of established companies in the sector in both 2011 & 2012. Thus, the number of the companies that have ceased activity in relation to the newly established in a comparable period (one year) is almost 2.

3. COMPANIES IN THE SECTOR UNDER COFACE GLANCE

As a provider of integrated services for the credit risk management, Coface Romania plays an important role to gather financial information on business partners very necessary for commercial transactions risk management. This statement is even true, in turbulent business conditions since the local triggering of the financial crisis, marked by a sense of uncertainty and multiple risk, complex and with a high degree of correlation. Over 70,000 companies became insolvent in the last 3 years and solvency of many companies was strongly affected: industries that have reported significant increases before 2008 subsequently reported severe negative adjustments. If before the crisis, the companies' main objective was a quantitative one, marked by an increase of the market share and overcome the competitors, the current context is defined by a very different reality. In this new context, knowledge of the financial situation evolution of main business partners is no longer an option, it becomes absolutely necessary.

In this section is presented the risk distribution for companies operating in road freight transport which were individually analysed by Coface during 2013.

For the entire portfolio, Coface Romania CMS has individually analysed during 2013, at the request of the business partners or as direct consequence of monitoring the exposures in the insurance division, a total of 36,000 unique companies with a turnover of approximately 180 BEUR, representing approximately 70% of the turnover of all active firms in Romania.

Of these, 2,752 companies are operating in the analysed sector. Even if from the numerical point of view, the sample analysed seems very small (generating a numerical weight of only 10%), these companies are representative, because they generate approximately 61% of total turnover recorded in the entire sector.

Table 5. Correlation of the turnover dynamics with the ratio of cash flow on short-term debts

Range Net Result/ CF:DTS %	Negative	0 - 0.5	0.5 - 1	Over 1	Total
Under - 50%	12%	7%	1%	1%	22%
-25% ~ - 50%	6%	4%	1%	1%	11%
0 ~ - 25%	11%	12%	2%	1%	27%
0 ~ 25%	12%	15%	4%	3%	33%
25% ~ 50%	1%	1%	1%	1%	4%
Over 50%	2%	0%	0%	1%	4%
Grand Total	44%	39%	9%	8%	100%

Source: Data processed by Coface

3.1. Distribution @rating score and payment behaviour

Summary description of @rating Coface methodology

Calculation of the probability that the subject company enter in defaults for the next 12 months involving the use of 218 soft variables (ex. payment behaviour and company description) and 299 financial variables. The results obtained by the two categories of variables are then consolidated to create a single risk indicator. Examples of variables used:

- Qualitative (Soft): the registration date of the company, form of organization, location, development, activity (belonging to the sector for the assessment of systemic risk), information about shareholders and relationships with other companies, information on payment behaviour, the existence of collection cases (access and interconnection/ database of the collection department within the company, which gives us information about the payment behaviour of investigated companies), etc.;
- Financial (Financial): is calculated based on the financial data available (both the dynamics of balance, absolute values, and calculated coefficient), ex. dynamic turnover, fixed assets, equity and its components, liquidity, solvency, profitability or activity.

The final score (@ rating company) is obtained as a linear combination of the two results, the financial one with a weight of 0.7, and the quality one, value of 0.3. Coface @ rating score also benefit from the information obtained by the Commercial Insurance Division of Coface, which provides to our analysts additional information (often confidential data which may not appear in the report) of the surveyed companies.

Risk categories according to @rating:

Insolvency cases/ current debt collection	Very high risk			Risk over medium level		Very low risk				
0	1	2	3	4	5	6	7	8	9	10

Scoring @rating: 1-3 (NIGA[9]).

For the companies in this risk category (NIGA) is not recommended an investment, credit insurance or credit granting. For this reason, the maximum recommended exposure for these companies will always be zero.

Generally, the companies in this risk class (NIGA) have a decreasing trend (abrupt) for several years in a row, risky payment behavior (payment incidents very recent restraint by the banks, have outstanding debts recorded in our base data), negative equity or very small (<5% of total assets), very low liquidity, very low or no negative information on commercial insurance line (confidential information which can not be provided in credit reports).

[9] Non-Investment Grade Aggravated

Scoring @rating 4-5 (NIG[10])

For companies in this risk category the investment is not recommended, but may be subject to a commercial insurance or a commercial loan (with caution). @ Rating companies scoring 4 and 5 have both negative and positive aspects: downtrend, but good financial structure; budget debts, old incidents, recent collection cases closed positive (company paid the debit), negative equity, with smooth evolution on the Profit and Loss Account.

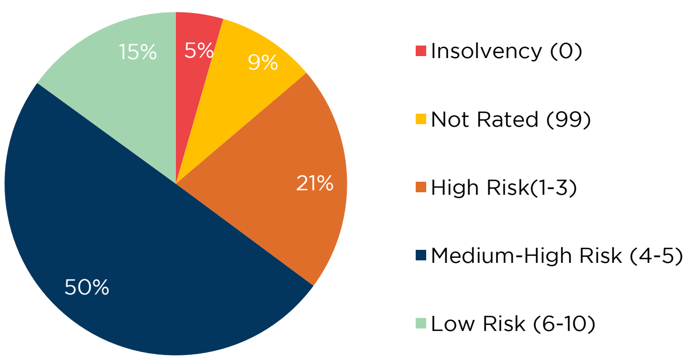
Scoring @rating 6-10 (IG[11])

For companies in this class, the risk is considered low. There is always a recommended commercial exposure for scoring in this risk category.

Analysing the distribution of the companies as regards the risk category, we note the following:

- Only 15% of the analysed companies pose a low risk of insolvency;
- 14% of the companies were already in insolvency at the analysis time or there was a pending application for insolvency, which is why the company's assessment was suspended;
- The rest of 71% of the analysed companies pose a risk of insolvency higher than the average and 1/3 of them registered a high risk.

Chart 21. @rating Coface - Industry Risk Distribution



Source: Data processed by Coface

Payments regime - is another important indicator resulted from the Coface's analysis of the credit report done individually for each company. This indicator directly influences the maximum exposure[12] recommended by Coface and indirectly the risk class to which belongs the company.

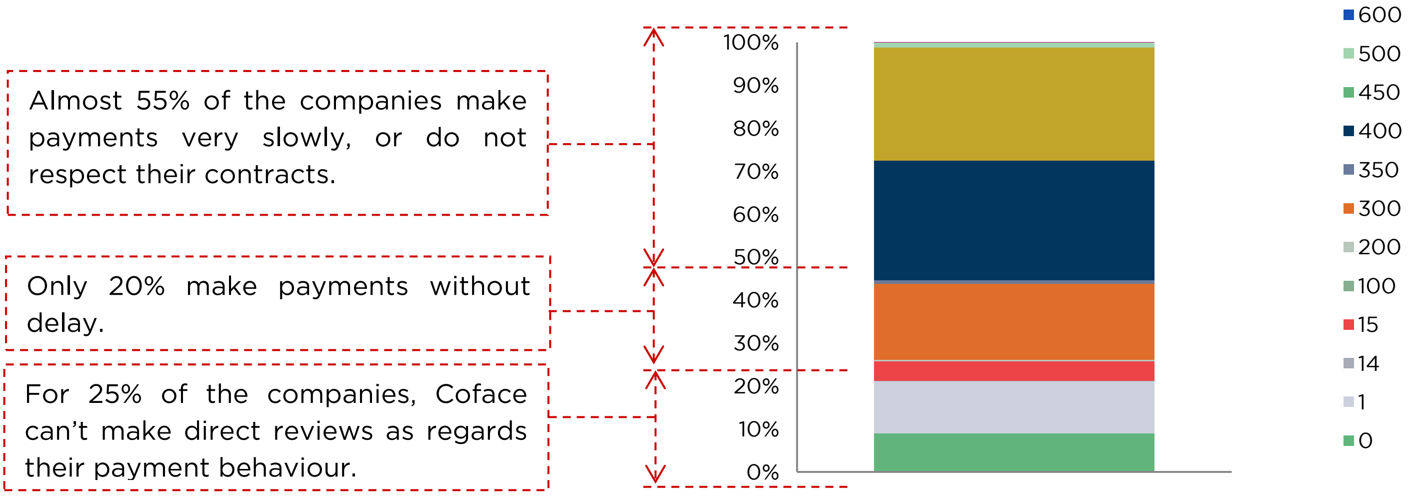
[10] Non-Investment Grade
[11] Investment Grade
[12] The upper limit of the credit acceptable by a supplier of goods or services with payment terms of 60 days (It is considered that the subject firm has an average number of 5 suppliers which delivers goods or services at the same time).

For this review are taken into account several elements:

- payment incidents (query CIP);
- debts to the state budget;
- financial indicators (debt level, liquidity: immediate and current, solvency, paydays working capital);
- collection cases.

Payment Code	Payment discipline code's explanation
0	No relevant information regarding the payments.
1	No information about payment incidents at this time.
12	Based on the current situation of the company, Coface Central Europe cannot provide a final assessment of the payment behaviour at the moment.
14	Based on the current information, Coface Central Europe cannot provide a final assessment of the payment behaviour at the moment.
15	Based on the insolvency information/ debt collection recorded, it isn't possible to assess the payments regime at this time.
100	Payments are made very correctly.
200	Payments are made regularly.
300	Payments are made according to terms.
400	Payments aren't made regularly.
450	Payments are made slow.
500	Payments are made extremely slow.
550	Payments are made extremely slow, constantly being necessary legal actions.
600	Payments stopped.

Chart 22. Distribution of analysed companies by payment behaviour



The credit limit is set as a% of the monthly turnover of the company. The maximum credit is the upper limit of the credit acceptable for a supplier of goods or services with payment term of 60 days and 5 providers simultaneously.

Because of the delicate financial situation of the analysed companies, only 25% of the companies checked by Coface during 2013 receive referral for credit limit, and the share their credit limit in monthly turnover is below 10%.

Although 2012 was a very good one under the auspices of sales growth for the companies within the road haulage services sector, but this is not visible in their financial performances and overall the sector registered a net loss. This is due to a very aggressive competitive environment, a monopolistic marketplace that brings together companies with a high level of financial and operational leverage. 2012 was marked by a period of increased investments, but funded in a defective way by a very low degree of capitalization.

More than half of the companies recorded a negative working capital during 2012, disrespecting the maturity principle of maturities on the allocation of resources to investments. More serious is that 60% of companies with positive working capital (so that theoretically shouldn't have liquidity problems), recorded a negatively cash flow from the operating activities or it doesn't even cover half of the value of short-term debts. Thus, during 2013 for each new established company were registered 2 companies that have closed down their activity. The assessment models analysed in this study confirm the high risk of insolvency of companies in the sector, about 3 out of 4 companies recorded a risk higher than average, while half of the analysed companies don't make the payments according to terms.

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