PRESS RELEASE

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ROMANIAN SECTOR OF IT PRODUCTS' DISTRIBUTION -

UNTIL WHEN CAN WITHSTAND DOWNWARD PRESSURE ON REVENUES AND EXPENSES OPTIMIZATION?

Since 2009, the distributors of IT products registered a constant decrease of the income in parallel with a positive financial performance. Thus, the average revenue per company registered in 2013 was 22% lower than the one recorded before the financial crisis, ie 2008, but in the same time the net result of 2.4% for 2013 at the sectorial level is the maximum registered in the last 10 years. After applying stress scenarios, Coface calculations indicate that the next years must bring solutions to increase the revenue. Otherwise, the sector risks to register an extension of payment terms to suppliers, which fuels the risk of insolvency.

A total universe of 1,263 companies operating in the IT and software distribution (NACE 4651) submitted their financial statements on the activity during 2013. According to the financial statements released by the Ministry of Finance, these companies generated a total turnover of the 5.2 BRON, down by 5% compares to previous year.

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.

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 noted that the incomes registered at sectorial level continued the contraction dynamics from the last years and the consolidated turnover value at sectorial level decreased by 5% in 2013 compared to the previous year, given that 54% of the companies registered declining income.

Despite this, the net result had a better evolution, 68% of the companies reporting a positive net income during 2013 and for half of these, the profits are increasing.

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. A witness in this regard is the number of jobs at sectorial level registered for 2013, of 5,898, which is up to 7% compared to the previous year, but also 18% less than in 2008.

Taking into consideration **the resources of attracting funding and their allocation for long-term investments**, it can be appreciated that during 2013, the analyzed companies have continued the trend observed from 2012, allocating significant investments to expand the fixed assets.

Compared to previous year, 1 of 3 companies operating in the IT and software distribution registered a negative working capital; which are mainly medium-sized companies.

But at the level of indebtedness, in 2013 is observed an improvement, of 74%, from 82% registered in 2012, this dynamics being accentuated by keeping the profits for reinvestment.

Payment terms were also reduced in 2013 by 27 days, due to a lower average receivables collection period with 24 days, which means that the analyzed firms have directed all amounts collected faster to pay short term debts. Despite this, the liquidity situation observed at the end of 2013 for IT products distributors presents a delicate balance. Thus, due to income decrease and cost optimization, the coverage rate of matured expenses, through incomes collected in 2013, is 100%. This means that any future negative shock of income decrease or non-collected receivables can be translated into an extension of payment terms, to the extent that there are no additional restructuring. If the dynamic of income decrease by 5% during 2013 will be noticed also in 2014, Coface estimates by applying stress scenarios that about 6% of due invoices will not be honored on time.

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

During 2013, Coface individually analyzed a sample of 210 companies from its portfolio that 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. Fragile liquidity situation is also confirmed in this representative sample, given that about 41% of the companies make payments very slowly, or do not respect their contracts and only 26% make payments without delay.

"Even if the companies from the analyzed sector have registered a decline of the average incomes for the 5th consecutive year in terms of rising profitability, it seems that the optimization process has reached the limit. In these conditions, it is recommended that the analyzed firms to focus on the measures to increase the income for 2014, as a normal consequence of the last 3 year's investments. Otherwise, the scenario of a continued decrease of incomes can put a significant pressure on liquidity; given that we appreciate the extra space of costs optimization is quite limited. Moreover, the average debt collection decreased from 122 days in 2012 to 98 days in 2013, the current level is the minimum registered for the last 5 years and it is unlikely to exist an extra space for the liquidity optimization from this direction", mentioned Constantin Coman, Country Manager, Coface Romania.

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About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2013, the Group, supported by its 4,440 staff, posted a consolidated turnover of €1.440 billion. Present directly or indirectly in 98 countries, it secures transactions of over 37,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies' payment behavior and on the expertise of its 350 underwriters located close to clients and their debtors.
In France, Coface manages export public guarantees on behalf of the French State.

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