P R E S S R E L E A S E

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FOOD, BEVERAGES AND TOBACCO DISTRIBUTORS IN SEARCH OF NEW SOLUTIONS TO KEEP THE FINANCIAL BALANCE

Giving up the profitability was the price paid by the distributors of food, beverages and tobacco in order to maintain the sales volume at a level comparable to the one registered in the years before the financial crisis. With the reduction of consumption and the pressure from the large retailers, the cumulative net profit for 2013 reported by the companies operating in this sector decreased to less than half compared to the end of 2008. However, to further complicate the situation, the sales volume decreased last year, after 2 consecutive years of growth.

Non-specialized wholesale trade of food, beverages and tobacco (CAEN 4639) brings together a total of 3,061 companies that submitted the financial statements on their activities during 2013, generating a total turnover of 21 BEUR and 32,000 jobs, both indicators registering a decrease by 6% compared to the previous year.

Although the efforts of the companies in this sector to maintain the income and recovery of the profitability are evident, the negative lately sales dynamics requires an analysis on multiple levels in order to identify the factors likely to compromise the financial equilibrium at the sectorial level.

The analysis **structure of the profit & loss account** for the companies in the sector is showing the following trends:

- Total turnover has registered in 2013 the first contraction during the last three years, while in 2011-2012 the sector managed to recover the 10% decrease of the sales volume in 2010. This, in the condition that over 50% of the companies reported decreasing income compared to 2012, while the number of companies that have managed to generate sales of over 5 MEUR decreased by 7%;
- In 2013, the industry has returned to a profitability close to the average of 2009-2011, but the current level is far from the one registered in the previous years of the crisis, extremely difficult economic environment of the last five 5 years resulted in a decrease of more than 50% of the cumulative net profit of the companies in 2013 compared to 2008, while the total sales volume decreased by 5% over the period considered.

Taking into consideration **the resources in terms of attracting funds and the allocation of resources for long-term investments**, Coface analysis

- Unlike the previous year, the analyzed companies haven't allocated significant investments to expand the fixed assets in 2013, they are rather passing from a period of investments (2012), to a conservation one (2013);
- The indebtedness registered at sectorial level increased slightly from 65% in 2012, to 69% for 2013, given that 4 out of 10 companies (mainly small and medium sized ones) have a high negative capitalization (equivalent to indebtedness greater than 100%) and other 2

out of 10 companies (indebtedness between 80% - 100%) can encounter in the future major problems in attracting future funding sources;

- Funding resources are focused mainly on short-term, following the financial analysis rules for the companies operating in distribution (short operating cycle), 3/4 of the companies registering a current debt ratio of over 75% of the total.

In terms of **indicators of liquidity**, the sector registers a fragile liquidity ratio (current liquidity ratio of just 1.01 in 2013), most of the companies are highly exposed to negative shocks that may come mainly from a decreased income. Considering that the sector has just faced this unwanted situation in 2013, when 25% of companies have ceased their activity, 28 of them having a turnover of over 1 MEUR, the firms need to focus on measures to increase the income for 2014. Otherwise it is very possible to encounter a significant pressure on liquidity, given that the space for spending optimization is quite limited.

During 2013, Coface individually analyzed a sample of 561 companies from its portfolio, which are operating in the analyzed sector. The sample is very representative, because these companies generate over 85% of the total turnover registered within the entire sector.

The deterioration possibility of the sector financial balance is confirmed by the insolvency risk assessment model used by Coface (@rating score), which is showing that only 1 out of 3 of the analyzed companies register a decreased risk of insolvency. In addition, 39% of the companies in the sample make payments very slowly, or do not respect their contracts.

"*In the context of maintaining with any price the sales volumes and market shares, the profitability recovery of the sector at least to the values comparable to those registered prior to the beginning of the financial crisis seems impossible, given that the efficiency of the activity couldn't be fully restored neither in the conditions of a significant restructuring of over 9,300 jobs made in the sector for the last five years. Thus, the main challenge for the companies in the sector is to find new solutions to ensure the profitability in the current market conditions*, "said 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.
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