

panorama

coface

Study on the status
of insolvencies in
Romania for the
first quarter
of 2014



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1. SUMMARY

Based on the final report released by IPB (The Insolvency Proceedings Bulletin), during 2013 for a number of 27,924 enterprises insolvency proceedings were opened, which represents an 8% increase vs. previous year. The actual figures are slightly above the Coface forecast published in January 2014 (increase estimated at 5%). To notice that the increase in the number of insolvency cases reported for 2013 is marked by a record in the number of larger enterprises (Turnover above 1MEUR), as a direct consequence of a peak in the payment instruments refusal incidence. Thus, during 2013, a number of 757 enterprises with a turnover above 1M€, have become insolvent, vs. 485 during previous year. The number of insolvency cases in Romania is significantly higher than in the countries in Central Eastern Europe, mainly because of the country specific insolvency proceedings legal frame, more in favor of the debtor side than creditor. Thus, although Romania generates 6% from the number of active enterprises in Central Eastern Europe it holds 40% of the insolvency cases reported at regional level¹.

The debut of the 1st Quarter of current year has seen a contraction in the number of insolvency cases of 14%² vs. same period previous year. This comparison is relevant rather from a statistical viewpoint only, since the number of insolvency cases among larger companies with a turnover over 1 MEUR is still very high, namely 167 (as much as the total number of insolvencies recorded during Q1 2011 and Q1 2012 altogether). According to the payment incidents report published by the National Bank of Romania, the payments incidents have reduced, with a decrease of 30%, in both number and value.

Thus, we can conclude that the economic environment, while still posing challenges from a credit risk perspective, is giving indication of a more stable cycle beginning and an improved payment discipline. More than 100,000 enterprises have become insolvent in the last 5 years, while only during 2013 a number of almost 115,000 enterprises have ceased their activity because of various other causes (suspended, dissolved or radiated). Although only half³ of these insolvent enterprises have been replaced with newly established enterprises, there are indications of a revival of the private sector, a big share of the non-performing enterprises having already been closed. Under these circumstances, a contraction of the number of insolvencies at the level of the entire 2014 is quite probable; the high number of larger enterprises insolvencies remains though still a concern. If this increase in the larger enterprises insolvency number continues, it may propagate to finally cause a higher systemic risk in the private sector.

Despite this fact, it is premature to interpret the decrease in the number of payment instrument refusals as a confirmation of the payment discipline improvement, given that the total transacted amounts for 2013 and 2014 is not known (for 2013 the figures will be published by the National Bank of Romania towards the end of current year). Thus, the contraction of the payment instrument refusals value can be explained also by a reluctance of enterprises in using these instruments any more (promissory notes or checks), amid an overall deterioration of confidence between entrepreneurs during 2013. The scenario of a contraction in the use of the payment instruments at national level is quite probable, as the trend observed during 2010-2012 is pointing to this direction.

¹ Bulgaria, Croatia, Czech, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Serbia, Slovakia, Slovenia

² Final figures according to the Insolvency Proceedings Bulletin

³ Given that the ratio between the enterprises ceasing activity during 2013 and the newly established ones during the same period is 2.5:1

Generally, it has been noted that the local economic environment is rather reactive (backward looking) than proactive (forward looking), and does not experience usually 2 subsequent extreme phases. Given the massive deterioration of the payment discipline during 2013, it is hard to believe that the current year will prove the contrary. Latest financial ratios indicate a healthier payment discipline trend but caution will be core word in the evolution of the private enterprises during current year.

2. SECTORAL AND TEMPORAL DISTRIBUTION OF INSOLVENT COMPANIES

Coface Romania has made a new study on the evolution of the number of insolvency cases in Romania, this time based on the newly registered insolvency cases with the Insolvency Proceedings Bulletin, during January-March 2014⁴.

2.1. Insolvency cases 2013 - final figures

Coface Romania has announced in January 2014 that, based on the preliminary data available at that time, a number of 26,372 insolvency cases have been recorded during the year 2013, indicating an increase of 2% vs. prior year. At the same time, Coface was estimating a total number of 27,145 insolvency cases for the entire year 2013, which would have represented an increase of 5% vs. prior year.

The time gap is caused by the delays between the time insolvency cases are recorded by the Insolvency Proceedings Bulletin and the time these are listed with the National Registry of Commerce, delay which can vary from 1 to 4 weeks. In the present study, we can determine, based on the final data published by the Insolvency Proceedings Bulletin, the actual number of insolvency case proceedings commenced during 2013, 27,924 namely, which translates into an increase of 8% vs. prior year.

 Table 1. Monthly Insolvency Cases Trend over the last 4 Years

Month	Year 2010	Year 2011	Year 2012	Year 2013
January	1,897	1,709	2,159	2,101
February	1,903	1,849	2,420	2,441
March	1,887	2,160	2,560	2,368
April	1,506	1,847	2,340	2,690
May	1,544	2,097	2,396	1,945
June	1,880	2,127	2,343	2,310
July	852	811	1,322	1,517
August	575	658	1,007	1,050
September	2,021	2,061	2,444	2,313
October	1,932	2,202	2,724	4,070
November	2,222	2,379	2,504	2,976
December	1,431	1,599	1,623	2,143
TOTAL	19,650	21,499	25,842	27,924
Total Deviation (preliminary data)		9%	20%	8%

Source: IPB⁵, Data processed by Coface

⁴ See the Methodological Remarks at page 15

The year 2013 was marked by a divergent overlap of the macroeconomic environment with the microeconomic one:

- At macroeconomic level - the economy has been marked by a series of positive trends, starting with the GDP increase of 3.5% (one of the highest in the euro zone), the adjustment of the current account and public budget deficit, as well as the inflation rate decrease (especially in the 2nd half of the year)
- At microeconomic level - the economy was marked by the highest number of insolvency cases in the capitalist history, with a record number of insolvency cases amongst larger enterprises (see table 2). The value of refused payment instruments during 2013 has reached the record level established during the period 2009-2010, of approximately 9.5 BRON (see table 3), while the value of non-performing loans has continued its increasing trend (up to approximately 23% at the level of the entire banking sector), Romania having recorded the highest NPL in the EU, after Greece. The enterprise sample analyzed individually by Coface during 2013⁶ confirms a general deterioration trend of the payment discipline at national level, where 2/3 of them have a higher than the average insolvency risk, half of the companies analyzed do not make payments according to contractual agreements, 4 out of 10 do not benefit from the Coface insured credit limit and the Coface credit exposures recommended value has suffered a contraction of 20%.

 Table 2. Evolution in the number of insolvency cases among enterprises with a turnover > 1 MEUR

Turnover range	Year 2010	Year 2011	Year 2012	Year 2013
1-5 MEUR	468	402	383	561
5-10 MEUR	65	45	57	112
10-50 MEUR	31	33	37	67
50-100 MEUR	2	2	5	10
Over 100 MEUR	3		3	7
Total Insolvencies TO > 1 MIL EUR	569	482	485	757

Source: IPB, MPF⁷, Data processed by Coface

⁵ Insolvency Proceedings Bulletin

⁶ 36,000 unique enterprises representing 70% of the total turnover at national level

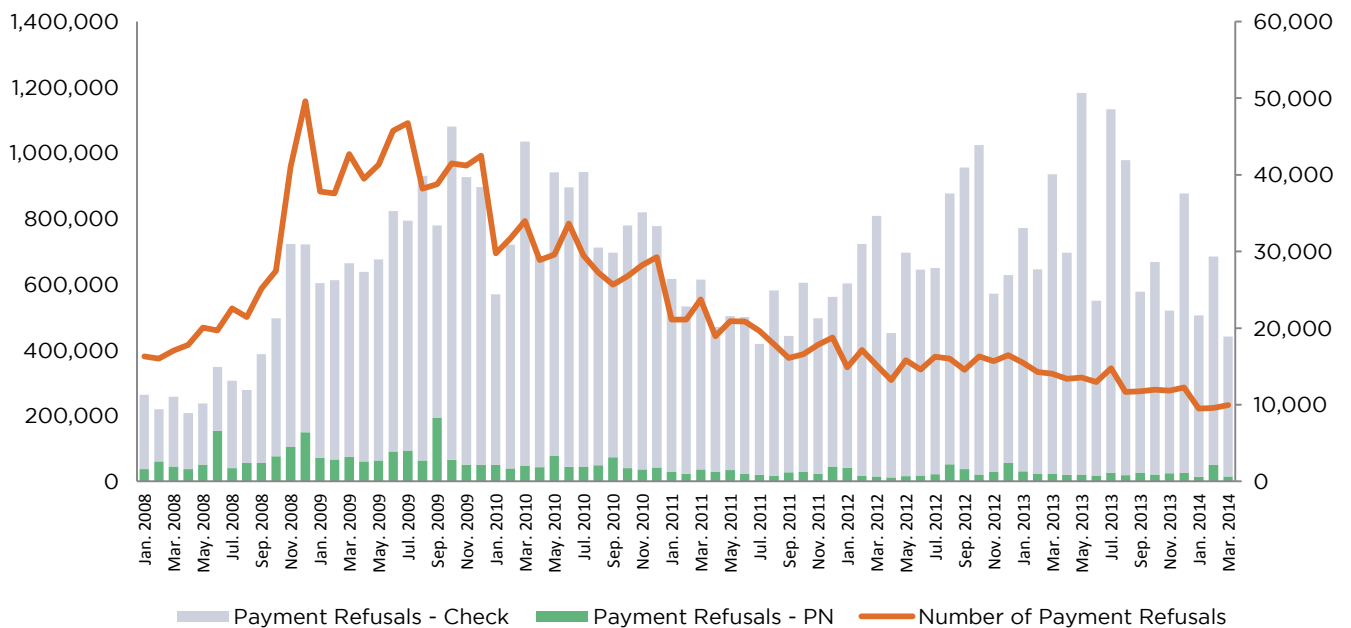
⁷ Ministry of Public Finance

Table 3. YoY Payment Incidents Evolution reported by the Romanian National Bank

Year	Total amounts refused for payment (K RON)	Number of incidents	Average incident value (K RON)	Amount PIC ⁸ %	Number PIC %	Average PIC %
Year 2013	9,531,019	157,906	60	10%	-15%	30%
Year 2012	8,628,886	186,071	46	36%	-20%	71%
Year 2011	6,341,525	233,451	27	-34%	-34%	1%
Year 2010	9,569,554	354,060	27	2%	-28%	42%
Year 2009	9,421,824	493,503	19	112%	68%	26%
Year 2008	4,446,160	294,227	15			

Source: RNB⁹, Data processed by Coface

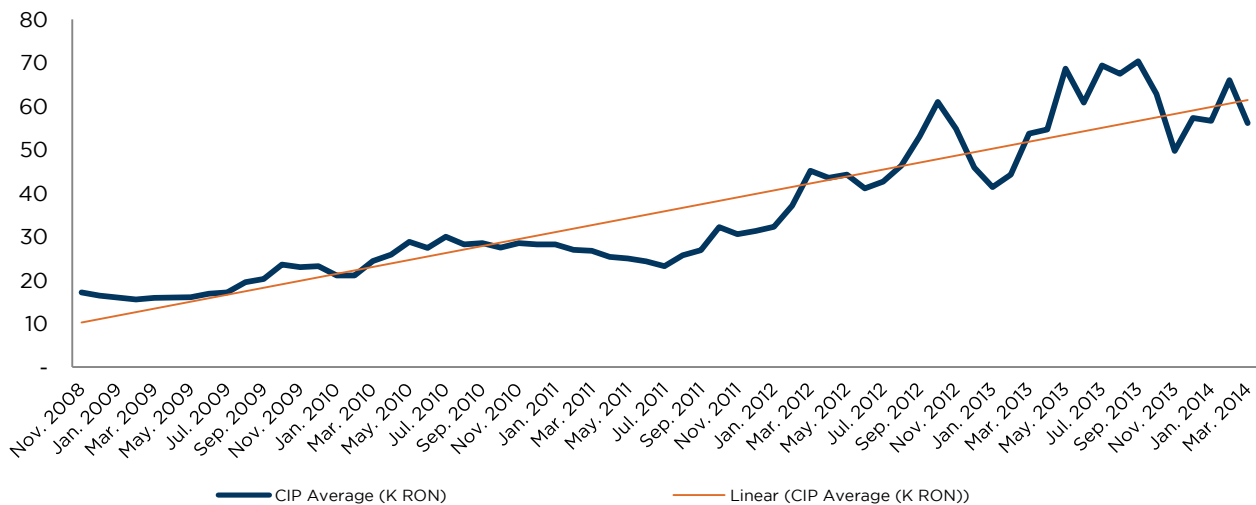
Payments incident number and amounts refused (K RON)



Source: RNB, Data processed by Coface
 PN= Promissory Notes

⁸ Payment Incident Central
⁹ The Romanian National Bank

PIC Average Value (K RON)



Source: IPB, Data processed by Coface

The major differences concerning the evolution of the 2 segments, micro/macroeconomic, are caused by the following major structural factors:

- The macroeconomic growth has not been a generalized one and it was mainly due to the increase in exports and a very good agricultural year. In order for the effects of the growth to become visible in other sectors of the economy too, the growth needs to continue in the next 2-3 years, the major propagation channel being that of the private consumption, with a higher generalized effect in comparison to the private corporate consumption (investments and acquisition)
- The payment discipline deterioration at microeconomic level, among both private owned enterprises as well as individuals, has been a propagated effect right from the start of the financial crisis, which has caused major changes as regards the financing structure of the companies. Thus, due to funding constraints that have persisted over the past 3-4 years, in order to finance their treasury, enterprises have resorted more and more to the supplier credit instead of bank loans. Based on Coface calculations performed on the sample of firms individually audited during 2013, it can be concluded that, the weight of the supplier credit in the total debt has increased during the last 3 years from 40% to 65%. The effect was propagated on the vendor-customer chain, from one industry sector to the other, the financing being ultimately provided by the larger to the very large enterprises which have progressively played a more and more significant role of “commercial banks” for their customers, choosing to accept extended payment terms. These structural changes have intensified the relations between private owned enterprises, which have started to play thus a more financial role not only a commercial one. In the context of these structural changes in the economy, the propagation speed of potential negative shocks is currently more rapid.

2.2. The insolvency cases evolution during Q1 2014

Based on the data published in the Insolvency Proceedings Bulletin and the Coface methodology, in the 1st quarter of current year a number of 5,929 insolvency cases have been initiated, a decrease of **14%** vs. same period prior year, when a number of 6,910 new insolvency cases have been initiated.

 Table 4. The evolution of insolvency cases initiated during Q1 of 2010 to 2014

Monthly	2010 Q1	2011 Q1	2012 Q1	2013 Q1	2014 Q1
January	1,897	1,709	2,159	2,101	1,977
February	1,903	1,849	2,420	2,441	1,965
March	1,887	2,160	2,560	2,368	1,987
Total	5,687	5,718	7,139	6,910	5,929
Deviation		1%	25%	-3%	-14%

Source: IPB, Data processed by Coface

Based on the financial statements submitted to the year prior to insolvency declaration year and depending on the main activity sector, based on the unique economic activity identification code, Coface has distributed the enterprises under insolvency proceedings in the 23 most important industry sectors, such as in below table:

 Table 5. Sectorial distribution of the insolvency cases for the last 2 years

Industry Sector	Insolvencies Q1 2014 ¹⁰	Insolvencies 2014 %	Insolvencies 2013	Insolvencies for every 1.000 enterprises
Retail	1,289	22%	6,096	20
Wholesale and distribution	1,051	18%	4,748	22
Constructions	911	15%	3,998	32
Other Services Activities	478	8%	2,268	13
Hotels and restaurants	387	7%	1,938	24
Transportation	338	6%	1,827	15
Agriculture	197	3%	831	17
Manufacture of wood and wooden products	184	3%	976	19
Food and beverages	156	3%	639	26
Manufacture of textile products	152	3%	766	31
Other activities from personal services	106	2%	479	15
Real estate transactions	106	2%	477	15
Metallurgical industry	101	2%	620	17
Financial intermediations	82	1%	356	20
Recreational, cultural and sports activities	80	1%	342	22
Manufacture of machinery and equipment	72	1%	273	16

¹⁰ Linear extrapolation of the enterprises that submitted their financial statements at the Ministry of Finance for the year prior to the insolvency declaration year

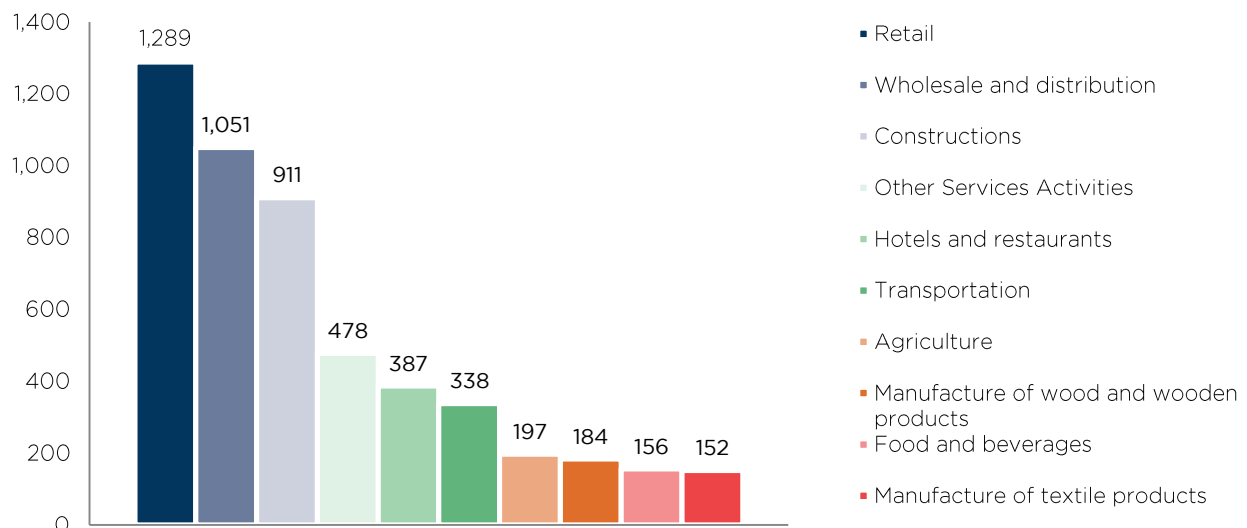
Industry Sector	Insolvencies Q1 2014	Insolvencies 2014 %	Insolvencies 2013	Insolvencies for every 1.000 enterprises
IT	55	1%	362	6
Manufacturing chemicals	53	1%	249	19
Sewage and waste disposal, sanitation and similar activities	40	1%	198	19
Extractive industry	32	1%	111	38
Generation and provision of electrical and thermal energy, water and gas	21	0%	77	39
Post and telecommunications	21	0%	176	10
Health care and social security	17	0%	117	3
Total	5,929	100%	27.924	20

Source: IPB, MPF

Although we do not possess information regarding the main activity for all companies which became insolvent during the analyzed period¹¹, there are two reasons based on which we estimate that the sectorial distribution at the level of the entire portfolio is similar to the one analyzed for the sample above, namely:

- The weight of the sample is significant from a statistical point of view for both years
- The weights of the sector distribution within the sample show values similar to the weights of the distribution at the level of the entire portfolio registered in the studies conducted by Coface for the last 3 years

Top 10 Business Sectors in terms of the insolvency cases number during Q1 2014 vs 1,000 active companies



Source: IPB, MPF, Data processed by Coface

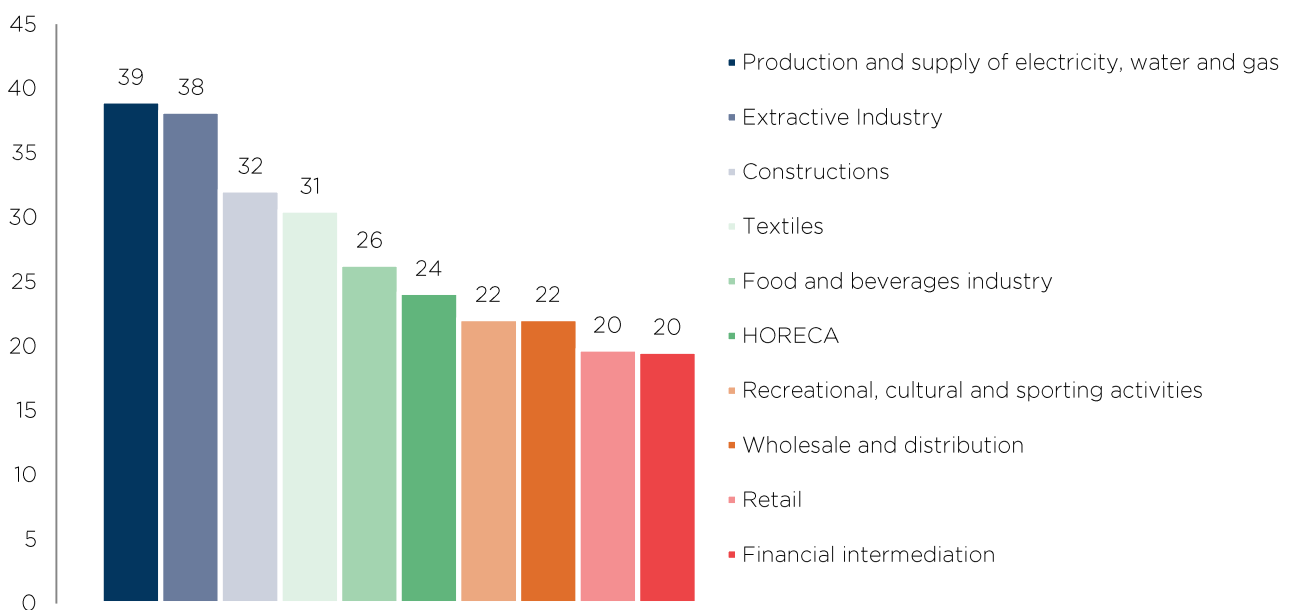
¹¹ These data can be calculated only for approximately half of the insolvent companies

The first ten sectors, which report the highest number of insolvent companies, are unchanged, as the only modifications relate to the order in the standings, but with variations of one, maximum two positions.

The analysis of the evolution of insolvency cases during the last 5 years shows a tendency of consolidation of the insolvency cases at the level of the first 3 to respectively 5 sectors. Thus, the weight of the top 3 sectors recording the highest number of insolvency cases in absolute amounts has varied in the last 5 years between 50%-54%, and the first 5 sectors between 65%-70%.

These weights are not random and are determined by structural factors, like the sectorial distribution of all active companies at national level. Thus, the top 5 sectors recording the highest number of insolvencies cover a similar weight in terms of total active enterprises as well. Having considered this structural factor, it is important that we analyze the total number of insolvencies in comparison to the total number of active companies from the respective sector¹². Thus, the top ten sectors that record the highest values for this indicator are listed in the next graphic. The generation and provision of electrical and thermal energy, water and gas as well as of the extractive industry record high values for this indicator due to a negative basis effect, the number of active companies being a reduced one. Thus, the next sectors that record the highest number of insolvencies compared with the total number of active companies are: constructions, manufacture of textile products, food and beverages sector (especially meat processing industry), hotel and restaurant services. To mention that the same sectors have been included in the top sectors with the highest values for this indicator for the last 2 years as well, this indicates the persistence of systemic structural problems.

Top 10 Business Sectors in terms of the Insolvency Cases Number during Q1 2014



Source: IPB, MPF, Data processed by Coface

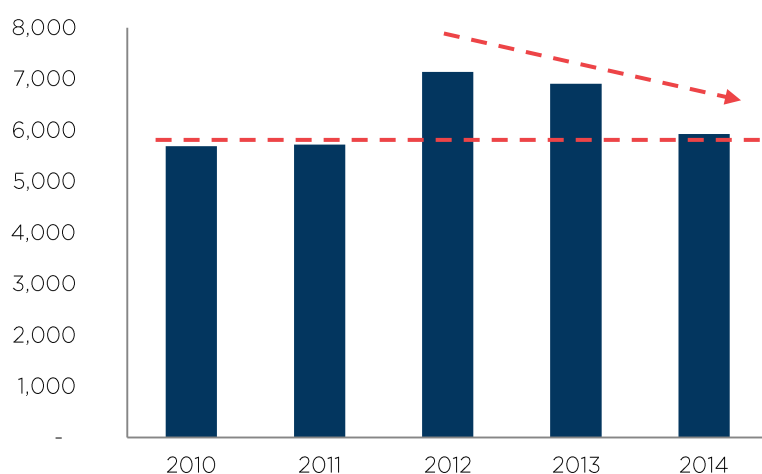
¹² Only the enterprises recording a turnover higher than 1 MEUR/ month during 2012 have been included in the category "Active enterprises"

3. FINANCIAL AND SOCIAL DIMENSION OF INSOLVENT COMPANIES

Even if comparable with the level recorded in the same period during 2010-2011, the number of new insolvency proceedings initiated during Q1 of current year is decreasing with 14% compared with the same period last year and with 17% less that same quarter of 2012.

The numerical evolution of the insolvency phenomenon has a secondary relevance, more important from a statistical point of view, given that 99% of the active companies at national level are small and medium sized, these representing as well the numerical majority of the insolvent enterprises. Thus, aside from the numerical dynamics, it is important to analyze as well the distribution of the insolvent enterprises by size, which can be quantified through their turnover.

Insolvency Cases Evolution during the first quarter of 2010 - 2014



Thus, as it can be seen in Table 6, in the 1st quarter of current year a number of 167 enterprises with a turnover higher than 1MEUR have become insolvent, compared with a number of 192 similar insolvent companies in the same period last year. Additionally, it is important to note that, in the first quarter of current year there have been no insolvencies recorded among enterprises with a turnover above 100 MEUR, while in the same period of last year, 4 such enterprises had become insolvent¹³.

Although decreasing vs. previous year, the number of enterprises with a turnover higher than 1 MEUR becoming insolvent during Q1 of current year is still at a high level, given that it represents more than the cumulated level for the similar period of 2011 and 2012, put together.

¹³ Oltchim S.A.,Aromet S.A., Grup Romet S.A., Ecoforest S.R.L.

 Table 6. Insolvencies among companies with a turnover higher than 1 MEUR, during Q1 2014

Turnover Range	2010 Q1	2011 Q1	2012 Q1	2013 Q1	2014 Q1
1-5 MEUR	117	73	69	138	123
5-10 MEUR	15	9	9	30	26
10-50 MEUR	9	1	4	17	15
50-100 MEUR			2	3	3
Over 100 MEUR				4	
Total Insolvencies TO > 1 MEUR	141	83	84	192	167

Source: IPB, MPF, Data processed by Coface

Thus, we can conclude that the economic environment poses still challenges to private enterprises from a credit risk perspective, but there are indications about the beginning of a new and better payment discipline cycle. Over 100,000 enterprises have become insolvent in the last 5 years while only during 2013 almost 115,000 enterprises have ceased their activity because of other factors (suspended, dissolved, radiated). Even if these companies were replaced only to 50%¹⁴ by newly established ones, there are premises for a revival of the private sector, part of the non-performing enterprises having been already closed. Under these conditions, a contraction of the number of insolvencies for 2014 is quite probable; the high number of larger enterprises becoming insolvent is still remaining a significant concern.

The data provided by the Romanian National Bank regarding the payment instruments refusal confirm a reduction in the payment incidents, given that both the number and the value of refused payment instruments during Q1 of current year decreased with almost 30% vs. same period last year.

 Table 7. The evolution of payment incidents reported by the BNR - 1st Quarter between 2008-2014

1 st Quarter of the Year	Total amounts refused to payment (K RON)	Number of incidents	Average incident value (K RON)
Year 2014	1,629,409	29,018	56
Year 2013	2,351,526	43,792	54
Year 2012	2,133,228	47,227	45
Year 2011	1,762,601	65,949	27
Year 2010	2,323,416	95,381	24
Year 2009	1,880,434	118,083	16
Year 2008	741,237	49,368	15

Source: RNB, Data processed by Coface

¹⁴ Given that the ratio between the enterprises ceasing activity during 2013 and the newly established ones during the same period is 2.5:1

Despite this fact, it is premature to interpret this dynamic as a confirmation of payment behavior improvement, given the fact that the total transactions amount at national level for 2013 and 2014 are yet not known (figures to be published by the National Bank of Romania in the 2nd half of the year). Thus, the refused payment instruments value contraction can be caused as well by a resistance of the companies to use these payment instruments (promissory notes or checks), given that the entrepreneurial confidence has decreased during 2013. The trend noticed during 2010-2012 indicates a decrease pattern in the use of payment instruments at national level.

Usually, the economic environment is reactive and doesn't experience two subsequent extreme phases. In the context of a deteriorated payment discipline during 2013, there is a small probability that current year should prove the contrary. Based on latest financial ratios, the payment discipline trend is positive but **caution** will be core in the next period. If that the GDP growth will be sustained by exports and industrial production and as well as by a revival of consumption that can generate a general positive impact for more industry sectors, there is a probability that the confidence level among companies returns to normal levels and the caution phase to be overcome. It is unlikely that we see all these trends happen at the same time during current year.

 Table 8. Total number of payment instruments at national level

Year	Amount transacted with payment instruments (MRON)	Payment refused amounts (MRON)	Refusal Percentage %
2008	90,458	4,446	5%
2009	61,165	9,422	15%
2010	91,691	9,570	10%
2011	74,142	6,342	9%
2012	72,445	8,629	12%

Source: RNB, Data processed by Coface

4. EVOLUTION IN TIME OF INSOLVENT COMPANIES

In this section we have analyzed the consolidated financial statements over the last 5 years of the companies that have become insolvent during Q1 of 2014. Thus, from the total number of enterprises going insolvent in the 1st Quarter of current year, a number of 1,595 enterprises have submitted their financial statements during the last 5 years¹⁵, representing an average of 70% from the total turnover of all the insolvent companies during the period under analysis. For a better understanding of the technical financial issues that have caused the insolvency, a correlated analysis of the P&L, balance sheet and cash flow statements has been done.

¹⁵ Relative to the activity from 2008, 2009, 2010, 2011, 2012

Table 9. Financial ratios for the Q1 2014 insolvent enterprises for the last 5 years

Insolvent enterprises financial ratios in Q1 2014	Financials year 2012	Financials year 2011	Financials year 2010	Financials year 2009	Financials year 2008
Average turnover (MRON)	2.3	2.5	2.8	2.6	2.5
Average employee number	9	9	9	9	11
Net Loss % (of CA)	-3%	-2%	-2%	-2%	0%
Debt Ratio	87%	81%	80%	77%	73%
Debt/ Turnover	1.00	0.76	0.59	0.62	0.53
DSO (number of days)	144	105	72	76	71
DIH (number of days)	80	63	54	60	52
Fixed Assets/ Total Assets	41%	44%	47%	47%	48%

Source: MPF, Coface database, data processed by Coface

Table 10. Turnover cash flow dynamics vs. short term debt

Turnover dynamic range / CF ¹⁶ : DTS %	Negative	0 - 0.5	0.5 - 1	> 1	Total
-100% ~ -75%	7%	3%	1%	0%	11%
-75% ~ -50%	6%	5%	1%	1%	13%
-50% ~ -25%	8%	5%	1%	1%	15%
-25% ~ 0%	10%	10%	1%	1%	22%
0% ~ 25%	6%	6%	2%	1%	14%
25% ~ 50%	3%	3%	1%	1%	7%
50% ~ 75%	1%	2%	0%	1%	4%
75% ~ 100%	1%	1%	0%	0%	3%
100% ~ 500%	4%	5%	1%	1%	11%
Total	46%	39%	8%	7%	100%

Source: MPF, Coface database, data processed by Coface

¹⁶ CF = Net Liquidity has been estimated by using the indirect method

Table 11. Net result cash flow dynamics vs. short term debt

Result interval dynamics / Range CF: DTS %	Negative	0 - 0.5	0.5 - 1	> 1	Total
-500% ~ -100%	10%	7%	2%	1%	20%
-100% ~ -50%	6%	5%	2%	1%	14%
-50% ~ -25%	2%	2%	1%	0%	5%
-25% ~ 0%	3%	3%	1%	1%	7%
0% ~ 25%	4%	2%	1%	1%	8%
25% ~ 50%	3%	3%	1%	1%	8%
50% ~ 100%	7%	5%	4%	1%	17%
100% ~ 500%	7%	6%	5%	3%	21%
Grand Total	42%	33%	17%	9%	100%

Table 12. Current liquidity ratio cash flow vs. short term debt

Current Ratio / CF: DTS %	Negative	0 - 0.5	0.5 - 1	> 1	Total
Bellow 0.5	11%	9%	14%	3%	38%
0.5 - 1	9%	10%	4%	1%	24%
1 - 2	9%	7%	4%	6%	26%
2 - 4	3%	1%	2%	1%	7%
Over 4	3%	0%	1%	1%	5%
Grand Total	35%	28%	25%	13%	100%

Table 13. Net result cash flow vs. short term debt

Net Result Range / CF: DTS %	Negative	0 - 0.5	0.5 - 1	> 1	Total
Bellow - 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%

The analysis of the financial ratios trend during the last 5 years reveals several structural causes that have put pressure on liquidity and have caused enterprises under analysis to go into insolvency.

Astfel:

- P&L - a number of analyses reveal small losses and marginal decrease sales, both of which have not been critical issues. The insolvency risk has been caused rather by the low income quality and low cash levels:
 - The average turnover value has remained constant or has recorded a marginal contraction average over the last 5 years. Moreover, based on data shown in the tables, 4 out of 10 insolvent companies during 1st Quarter of current year have reported a turnover increase, but 3 of them have recorded negative net liquidity or which was not covering even half of the short term debt
 - The loss recorded by the respective companies in the last 5 years has been relatively small (with the exception of the scenario in which the losses might have deteriorated during 2013, financial year for which we don't possess currently the relevant financial data for all the companies under analysis). Moreover, from the net result dynamics perspective, 5 out of 10 enterprises have recorded a performance improvement during 2012 (loss decrease or profit increase), but 4 out of these were reporting a negative liquidity. Moreover, the numbers in table number 13 indicate the fact that 4 out of 10 insolvent enterprises were recording profit, but this was not monetary.
 - The financial and operating leverage has remained constant during the period under analysis.
- Balance sheet - several structural issues have been identified that have accelerated the path towards insolvency:
 - The inappropriate current assets rotation - in the context in which the average turnover has decreased in 2012 by 9% vs. previous year, stocks have increased by 16% whereas receivables up by 26%. This dynamic, correlated with decreased advanced income (which would have meant additional cash), indicates a deterioration in the income quality, reflecting a more rapid increase of the non-monetary basis. Thus, the average days to collect and the stocks rotation speed have recorded a steady increase during the period under analysis, such that more and more capital has been blocked/immobilized in current assets.
 - The bad working capital quality, theoretically positive, but practically blocked in more and more slowly collected receivables as well as stocks that were slower and slower sold, is confirmed as well by the numbers table number 12, where we it can be noticed that 4 out of 10 insolvent companies had a current rate > 1, but in the context of a negative net liquidity or less than 50% of short term debt amount.
 - Unsustainable debt levels increase. The debt level¹⁷ has increased for the entire sample under analysis from 73% in 2008 to 87% in 2012. Obviously, this dynamic has been recorded due to a corresponding decrease in the capitalization degree, an indication that shareholders have not covered the loss cumulated in the last 3-4 years through capital increase.

¹⁷ Total debt (long+short term) vs. total assets

- The additional capital supplied by creditors has not been apparently used in investments given that the degree of long term capital investment¹⁸ decreased from 48% (level reached in 2008) to almost 41% (level reached in 2012). Thus the fixed assets have represented 50% from the total debt accumulated by the insolvent companies during the first 3 months of current year. The decreasing trend of fixed assets share in the total assets can be an indication for the following:
 - CAPEX investment not enough to compensate assets depreciation
 - Decreased reevaluation of fixed assets value in the context of an inappropriate capitalization of the past expenses or even of a depreciation method able to inflate past profits (increased usage period or overestimated residual value)

5. TERRITORIAL DISTRIBUTION OF INSOLVENT COMPANIES

The territorial distribution of insolvency cases registered during during Q1 2014 did not register significant changes compared to the circumstances of the same period of the previous year. Thus, the most affected three regions based on the number of insolvencies registered has been Bucharest, South and Central regions respectively, representing almost half from the total no of insolvencies recorded in the period under analysis.

The only region where the number of insolvencies recorded in the 1st Quarter of current year has increased vs. same period previous year is Bucharest, with a significant 27% increase. The regions with the highest decrease are North-East (-34%), South-East (-33%) and North-West (-30%).

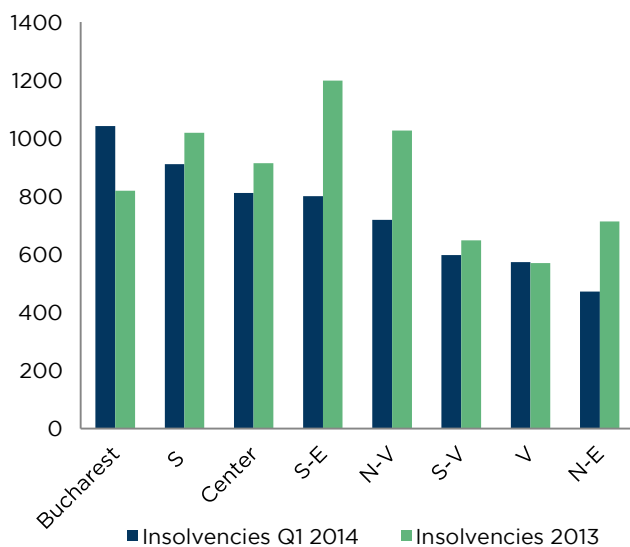
 Table 14. Regional Distribution of Insolvent Enterprises

Region	Insolvencies Q1 2014	Insolvencies 2013	Insolvency Variation 2014 - 2013
Bucharest	1,042	819	27%
S	911	1,019	-11%
Center	812	914	-11%
S-E	801	1,199	-33%
N-V	719	1,027	-30%
S-V	598	649	-8%
V	574	570	1%
N-E	472	713	-34%
Grand Total	5,929	6,910	-14%

Source: IPB, Data processed by Coface

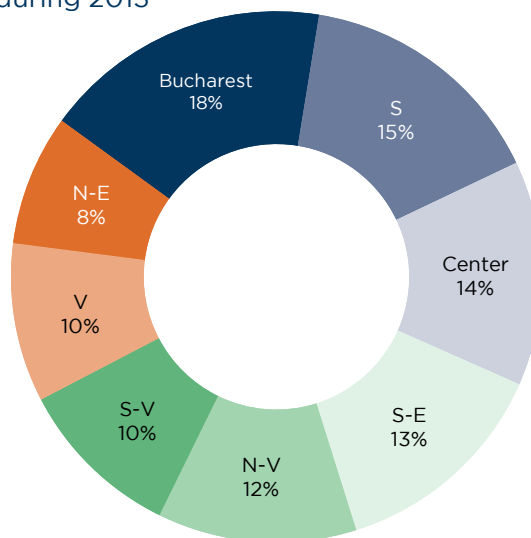
¹⁸ Approximated by the ratio of fixed assets to total assets

The territorial distribution of companies becoming insolvent in Q1 2014 & 2013



Source: IPB, Data processed by Coface

Regional distribution of insolvencies opened during 2013



Source: IPB, Data processed by Coface

8. METHODOLOGY REMARKS

In this study were considered the new insolvency cases recorded during the period under analysis (Q1 for the last 5 years) and is based on data published in the Insolvency Proceedings Bulletin. For example, all the companies with insolvency proceedings initiated in the period January - March 2014 (according to the Insolvency Proceedings Bulletin) and which are not listed as active at the beginning of May 2014¹⁹ (according to the National Registry of Commerce) have been considered as insolvencies opened during the 1st Quarter of current year.

The analysis of financial indicators for the companies taken into account was exclusively based upon the financial statements submitted to MPF in the analyzed period and the data processed by Coface.

¹⁹ April is considered to ensure the time gap coverage between the time of the insolvency proceedings registration at the Insolvency Proceedings Bulletin and the time the activity status change is processed by the National Registry of Commerce. Only the companies that are under the stipulations of Law 85/2006 have been considered, that are under bankruptcy, insolvency or radiation status. Enterprises under the stipulations of Law 359/2004 and 31/1990 as well as those enterprises under reorganization at the beginning of May 2014 have not been considered.

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The logo for coface, featuring the word "coface" in a lowercase, sans-serif font. The "co" is in a dark blue color, and the "face" is in a lighter blue color. The "o" in "co" is stylized with a green circular element.