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Informazione Regolamentata n. 1597-42-2015	Data/Ora Ricezione 10 Novembre 2015 13:47:39	MTA
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Societa' : CERVED INFORMATION SOLUTIONS

Identificativo : 65354

Informazione

Regolamentata

Nome utilizzatore : CERVEDN04 - Sartor

Tipologia : AVVI 16

Data/Ora Ricezione : 10 Novembre 2015 13:47:39

Data/Ora Inizio : 10 Novembre 2015 14:02:40

Diffusione presunta

Oggetto : Cerved SME Report 2015

Testo del comunicato

Vedi allegato.

PRESS RELEASE**CERVED 2015 SME REPORT: ITALIAN COMPANIES SHOW CLEAR SIGNS OF IMPROVEMENT BUT THE LARGE STOCK OF NON-PERFORMING LOANS IS THE VARIABLE ISSUE**

- **SME POPULATION DECLINE HAS STOPPED**
- **FINANCIAL STATEMENTS LIKELY TO IMPROVE FURTHER IN 2016-2017**
- **BAD DEBTS EXPECTED TO RISE TO €216 BILLION IN 2020 IF THE CURRENT TIMESCALE FOR INSOLVENCY PROCEEDINGS WILL NOT DECREASE**

Milan, November 10th, 2015 – Today Cerved, the largest financial information provider in Italy, presented the key findings of the **Cerved 2015 SME Report** during [the annual Osservitalia meeting](#). The Report provides detailed analysis of the financial profile of 137,000 Italian companies defined as small and medium-sized enterprises by the European Commission¹.

The picture that emerges in Cerved SME Report shows that during 2014 and in early 2015, Italian companies recorded clear signs of recovery, more marked than those of large companies. Among SMEs, there were increases in revenue, added value and, to an even greater extent, EBITDA. After falling for several years, SME profitability turned upward in 2014, rising above the level seen among large companies, which instead continued decreasing. Moreover, so far in 2015 SMEs have improved their risk profile and paid their suppliers more promptly than in previous years. Also, the number of business closures among SMEs has gone down and the number of births has increased.

Gianandrea De Bernardis, Chief Executive Officer of Cerved, observed:

On the whole, our data show that the long crisis put severe strain on the country's SME population, which is coming out of the recession smaller numerically but of better quality. In the past couple of years, the financial profile of SMEs has improved because the most fragile companies have gone out of business. This trend is now supported by an increase, in absolute terms, of the number of financially sound companies, which are now benefitting from the positive economic situation. Trend in profitability inverted in 2014: SME increased their average return on equity and we expect a further improvement for the next two years, although at levels quite lower than the pre-crisis ones. This recovery could be invigorated if the large stock of non-performing loans accumulated during the crisis can be drained quickly.

¹ **Profile of SMEs in Italy.** According to the European Commission classification, SMEs are companies with annual revenue between €2 and €50 million and between 10 and 250 employees. According to the most recent financial statements available, there are about 137,000 such companies active in Italy, of which 113k small businesses and almost 24k medium-sized businesses. SMEs are the real engine of the Italian economy; they make up more than one-fifth (22%) of all Italian companies that submitted valid financial statements and have almost 4 million workers combined. These companies achieved €838 billion in revenue, €189 billion in value added (equivalent to 12% of GDP) and were indebted to the tune of €255 billion. With respect to all non-financial companies in the country, SMEs account for 36% of revenue, 42% of value added and 30% of debt.

The current scenario: decline in the number of SMEs comes to a halt...

The latest figures indicate that the haemorrhaging of SMEs has stopped: the number of small and medium-sized enterprises, which fell from 150,000 to 137,000 from 2007 to 2013, held stable in 2014. The difference between SME births and deaths came back to the plus side in 2014, although this was neutralised by a negative difference between the number of micro-businesses that grew to become SMEs and the number of companies that went in the opposite direction, going from SME to micro-business status.

Over the course of 2014 and 2015, there was a double-digit decrease in the number of bankruptcies, other insolvency proceedings and voluntary liquidations of SMEs; this trend has gained strength in the last few months in all productive sectors of the economy. Even the company demographics provide evidence that a recovery is in progress: the introduction of the “simplified” limited liability company form has encouraged new entrepreneurship and, during 2014 and 2015, has led to a noticeable increase in new corporations.

The businesses that grew in spite of the crisis managed to do so thanks to very solid financials. Those that grew from micro-business to SME status have shown better productivity, and are more solid financially, less reliant on banks for credit and are more profitable than those that went in the opposite direction.

..and SMEs are performing better than large companies

Although belatedly if compared to the global economic recovery, the financial statements of SMEs showed a revival of growth, unlike large companies, which again recorded negative overall trends. In 2014, revenues of Italian SMEs grew by 1.5%, with industrial companies leading the way (+3.1%), followed by service companies (+1.3%).

Thanks to cost containment policies implemented during the stagnant economic phase that carried on in 2014, SMEs recorded an increase of 3.3% in their value added. Once again it was the industrial sector leading the way at +4.7%.

EBITDA rose more substantially, by 4.6% from 2013 to 2014, thanks especially to positive dynamics in labour productivity.

Return on equity (ROE) grew from 5.9% to 7.1%, rising above large companies' ROE, which fell from 6.8% to 6.4%. Income results were especially bright for SMEs in manufacturing sectors and, to a lesser extent, those that operate in the tertiary sector.

During 2014 and the first half of 2015, improving income dynamics have been accompanied by faster payments: SMEs pay their invoices after 74 days on average, one week less than at the peak of the crisis, and the average tardiness is at its lowest level since 2012. SMEs' improving financial statements and faster invoice payments have been achieved in spite of less access to credit – whether from banks or from their suppliers – than large companies: SMEs pay 70 basis points higher interest on bank loans and have a disadvantage of about two weeks in terms of trade credit.

SMEs' financial accounts: Cerved's forecast to 2017

According to Cerved's forecasting models, which are based on a moderately positive macroeconomic scenario where Italian GDP growth gradually moves up to 1.5% in 2017, the income statements of SMEs will improve.

With an increase recourse to debt capital and a further increase in equity, in nominal terms revenue is expected to surpass the pre-crisis level in 2016 (as for inflation-adjusted figures, it will remain lower throughout the forecast period). Thanks to company policies enacted to contain costs, Cerved estimates that added value and EBITDA will increase even more significantly, reaching a growth rate of 7.5% in 2017.

These improvements will be reflected in operating and net profitability indicators, which should improve but are expected to remain weaker than pre-crisis levels.

**Key Financial Indicators –
Forecasts for Italian SMEs
on aggregate**

	2014	2015	2016	2017
Nominal revenue growth (%)	1.5%	2.6%	3.8%	4.2%
Value added growth (%)	3.3%	4.1%	4.8%	5.1%
EBITDA growth (%)	4.6%	6.2%	7.0%	7.5%
Debt / Equity (%)	87.7%	88.1%	88.5%	88.3%
Financial charges / EBITDA (%)	20.6%	19.4%	18.9%	17.7%
ROA (%)	3.6%	4.2%	4.6%	5.0%
ROE (on pre-tax recurrent earnings) (%)	7.1%	8.0%	8.8%	9.3%
Debt / EBITDA	4.3%	4.1%	4.0%	4.1%

Source: 2015 Cerved SMEs Report

Concerning credit risk, the SME population is gradually becoming more polarised: there are more companies at risk of default, but also more in the safe area. In September 2015, for the first time since 2012, there were more SMEs whose credit scores (summarizing the credit-worthiness) were upgraded than those downgraded, and the dynamic was especially upbeat in the industrial sector.

These trends, combined with projections for a further improvement in the main SME financial sustainability indicators, will presumably lead to a gradual reduction in the rate of new doubtful loans. The rate of bad debts loans is expected to go from a 2014 peak of 3.1% down to 2.6% in 2017, if calculated on the number of loans, or from a 2013 peak of 5.5% down to 4.3% in 2017 if calculated based on the loan amount.

Non-performing loans: the unknown variable on the SMEs' recovery

One of the unknowns weighing down Italian SMEs' recovery ride consists in the large stock of bad debts and, more broadly, non-performing loans (NPLs) that they have accumulated over the crisis years. Significant volumes of NPLs in banks' financial statements could penalise the supply of credit and have particularly detrimental consequences for SMEs, which depend almost entirely on banks for financing.

Basing on Cerved's estimates, which are built on the assumptions of a moderate recovery and current timescales for legal procedures (it takes more than 7 years on average for a bank to extinguish a bad loan), the stock of gross doubtful loans will continue to grow up until 2020, reaching a peak of €216 billion (from €184 billion at the end of 2014), while as a percentage of the total loan stock they should begin to decrease in 2018.

Recently the Italian Government introduced a package of measures aiming to shorten bankruptcy procedures, to help make voluntary arrangements with creditors more successful, as well as to speed up foreclosure procedures. According to a selection of NPL market operators surveyed by Cerved and the Italian Banking Association (ABI), this legislation could have significant effects: these players believe the measures could lead to a 28% reduction in the length of bankruptcy proceedings and a 20% shorter public real estate auction process, thus reducing the total average time frame for extinguishing bad loans from 7.3 years to 6.

If timescales do improve in this manner, then Italian banks' stock of doubtful loans could be expected to peak in 2018 and then decrease to €197 billion by the end of 2020.

Even in the event of a moderate economic recovery and successful bankruptcy reform, doubtful loans would remain close to the current level in 2020, unless additional measures are adopted. Therefore, in order to enable banks to remove doubtful loans from their accounts, the NPL market needs to take hold. Up until now, the Italian market for NPLs has been rather small due to a wide gap between banks' asking prices and the prices offered by potential buyers (chiefly investment funds specialising in NPLs).

Investors' estimates have been particularly low for several reasons, including the different discount rates that are more favourable for banks and disparities in information that can make the potential investors particularly cautious with respect to the amount that can be recovered and the time it would take them to do so.

In this context, creating a “bad bank” that would help boost liquidity and provide guarantees to institutional investors is an idea that could contribute decisively to NPL market growth. It would reduce the effect of informational disparities and would encourage medium to long-term investors, such as pension funds, to enter this market, as what deters them most is the risk of losses on the capital invested.

Cerved Group is the largest information provider in Italy and one of the major credit rating agencies in Europe. It offers the most comprehensive range of products and services used by more than 34 thousand companies and financial institutions to assess the solvency and creditworthiness of its stakeholders, manage credit risk in all its phases, and accurately define marketing strategies. Furthermore, through Cerved Credit Management, Finservice and Recus, it offers solutions for the evaluation and management of NPLs.

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Fine Comunicato n.1597-42

Numero di Pagine: 6