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Analysis by company insolvencies

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Analysis by sector

PANORAMA INSOLVENCIES

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FEBRUARY 2015

By Coface Group Economists



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This barometer presents the new trend in business insolvencies. We are reviewing the results for 2014 and the first orientations for 2015 with insolvencies for January. After

two consecutive years of growth, the number of insolvencies over 2014 had decreased by 2.9%. But, if the trend seems to have reversed, the number of insolvencies remains high. The cost (total trade payables of insolvent companies) decreases as well (-14%) like the

number of jobs threatened (-16.9%). In January 2015, this decreasing trend is confirmed. Companies benefit from the resistance of household consumption, the relative availability of credit and also the stabilisation of profit margins.

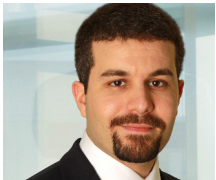
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FEBRUARY 2015

INSOLVENCIES BAROMETER

BY OUR ECONOMISTS



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↗ The number of insolvencies fell to 62,073 in 2014 (-2.9%)

↗ Trend continuing in January 2015 (-3.2% year on year), i.e. total down to 61,948 insolvencies

↗ Fall attributed to the resistance of consumption, the relative availability of credit and the stabilisation of companies' profit margins

↘ Vulnerability of MSEs in the fourth quarter of 2014: 33 MSEs among the 100 largest business failures by turnover (against 24 in 2013)

↘ Alsace greatly affected in 2014, with insolvencies up by 15%

ANALYSIS BY COMPANY INSOLVENCIES

Change in the number of insolvencies

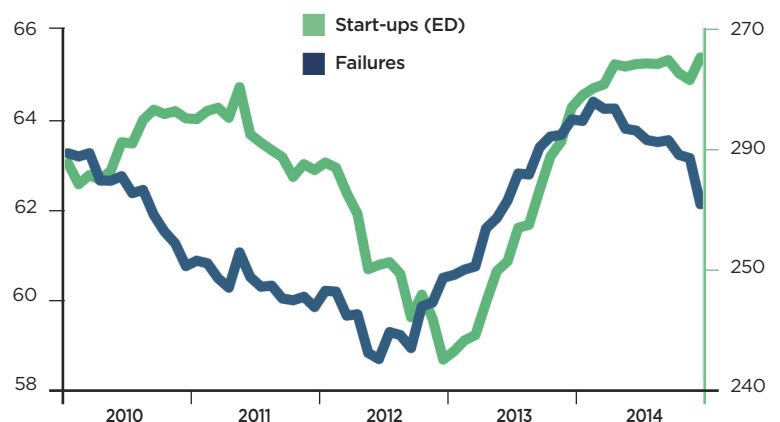
Reservation:

The December 2014 data were impacted by social movements occurring in commercial courts. They are therefore likely to be revised upwards. But this should not change the general trend.

The trend of business failures in France reversed in 2014, as we can see from the 2.9% fall relative to 2013. The total cost (total trade payables of insolvent companies) amounted to €4.1 billion (-13.9%) affecting 168,105 employees (+-16.9%). Business creations, for their part, have been numerous since the end of 2013, totalling 267,340 for 2014, which actually increased the number of failures ⁽¹⁾ (chart 1).

Chart 1

Business insolvencies and creations, excluding autoentrepreneurs (year on year, in thousands)



Sources : Scores & Décisions, Coface

(1) The chances of a business surviving are lowest after a year of existence and then increase over time. In other words a "peak" in business creations will lead to an increase in the number of business failures with a delay of about one to three years. See Coface: "Insolvencies Barometer, December 2014", page 2

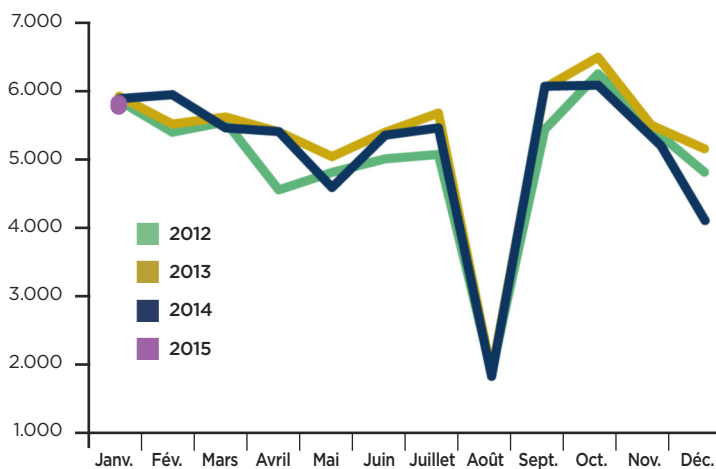
How do we explain this decrease in insolvencies? First, because businesses benefitted indirectly from the moderation in inflation (+0.5% in December 2014), particularly for food (-0.6%) and energy (-0.9%) products, which restored purchasing power of households, whose consumption of goods increased by 0.1% in Q4 2014. Another explanation: businesses also benefitted from lower borrowing rates, which facilitated access to bank credit, their primary source of funding. Since June 2014, loans to businesses increased by an annual

rate of 2.6% in December 2014. Moreover, profit margins stabilised in 2014 to reach 29.5%⁽²⁾ in the third quarter.

This improvement was confirmed in Q4 2014. The months of October and December show lower levels of insolvencies than in the same months of 2012 and 2013 (*chart 2*).

However, this improvement is qualified by the numerous failures of MSEs recorded in the Q4 2014 with 33 businesses in the 100 largest failures by turnover against 24 in Q4 2013. This trend continued in January 2015 with the failure of four businesses with a turnover of more than €100 million. 2015, has therefore, started on an ambiguous note: a general decline in insolvencies but increased fragility of the largest structures. Since November 2014, the biggest business insolvencies have been the airline company Air Méditerranée (Turnover: €411 million, receivership), the slaughtering and meat cutting specialist AIM Group (Turnover: €271 million, receivership) and the shipping company SNCM (Turnover: €191 million, receivership).

Chart 2
Number of business insolvencies per month



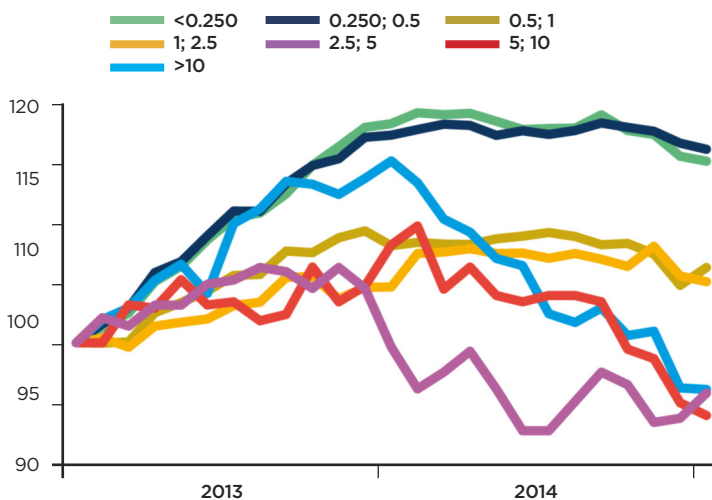
Sources : Scores & Décisions, Coface

Failures by business size

Let us look at the evolution of business insolvencies by their employee numbers. Failures of micro-businesses, which account for 93.3% of the total at the end of January 2015⁽³⁾ (-5.4%) over the last twelve months, at a slower pace than very small enterprises (-5.3%), SMEs (-15.7%) and MSEs (-21.9% at 29 failures in total).

If we look at failures by turnover band (*chart 3*), we notice that failures of businesses with turnover of less than €500,000 are falling. We also note that failures of businesses with turnover between €0.5 and €2.5 million are still high and 15% higher than those of 2013. Those with turnover of more than €50 million have increased by 21.7% year on year at the end of January.

Chart 3
Business insolvencies by turnover
(millions of euros, 100=January 2013, year on year)



Sources : Scores & Décisions, Coface

(2) EBIT/GROSS VALUE, Insee

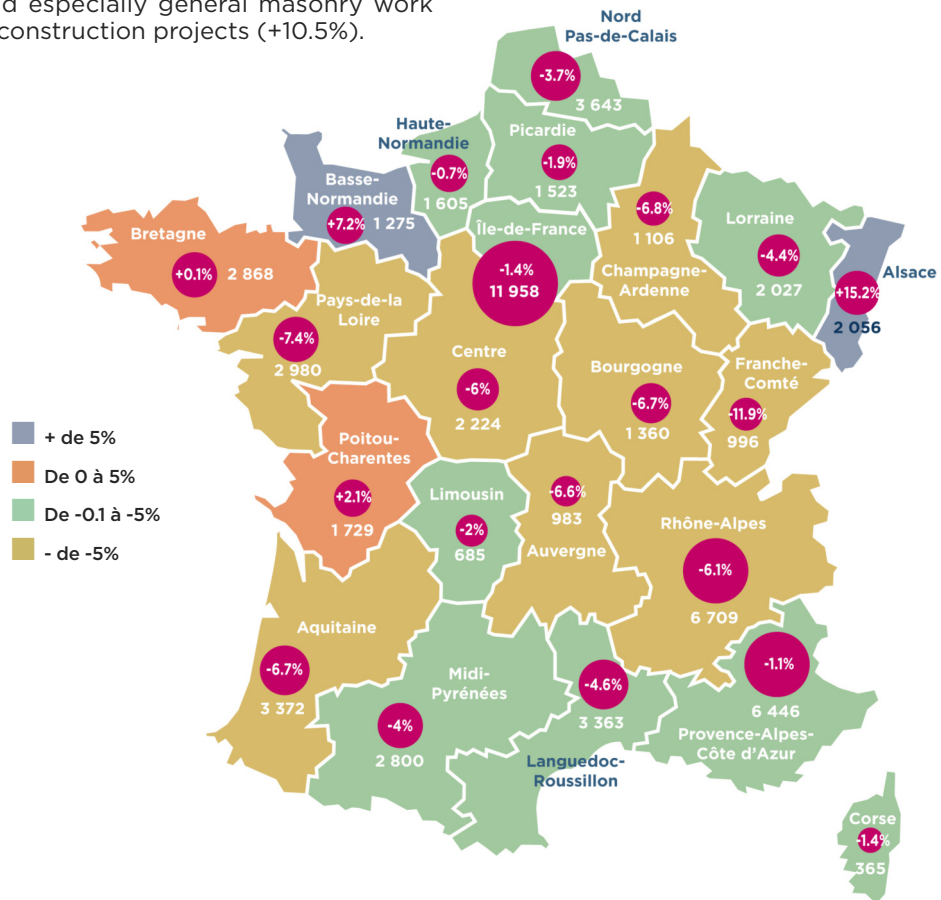
(3) Compared with 93.5% of total companies, 2014 data, Eurostat "SME Performance review", October 2014

Business failure map of France

Among the 22 regions of metropolitan France, only four saw their business failures increase in 2014: Bretagne (+0.1%), Poitou-Charentes (+2.1%), Basse-Normandie (+7.2%) and Alsace (+15.2%). But the weight of these regions remains limited to 12.8% of the total. Against this, the number of insolvencies is falling in Franche-Comté (-11.9%) and in the Loire region (-7.4%). Note that 13 of the 22 regions show falls of more than 2%. Insolvencies in Ile-de-France, which accounts for 19.4% of total insolvencies, are down by 1.4%. In this region, the construction sector (33% of the total) is still badly affected (+5.5%) and especially general masonry work and major construction projects (+10.5%).

As we have recently seen, Alsace stands out with a sharp rise in the number of insolvencies and 2,056 businesses affected. In all sectors, insolvencies have increased but two of them are deteriorating more quickly than the others: construction and distribution with rises in the number of failures respectively of 28.4% and 33%. Two sectors which represent 33% and 10.7% of total insolvencies in Alsace.

Chart 4
Business failure map of France (2014)



Sources : Scores & Décisions, Coface

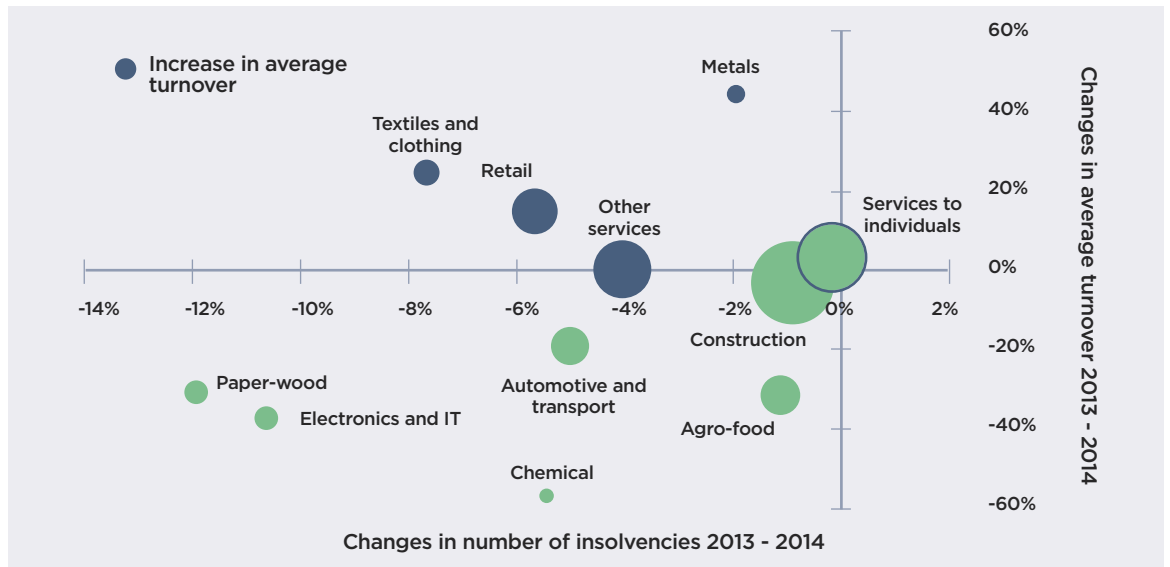
ANALYSIS BY SECTOR 2014 REPORT

Evolution of insolvencies by sector

Out of the 11 sectors analysed by Coface, none recorded an increase in insolvencies in 2014. However, when we observe the size of the business by their average turnover, three sectors stand out: metals, textiles and distribution. Trade performance, which mostly results from the distribution and textile sectors, is effectively closely linked to performance in the household consumption in goods, which declined by -0.2%

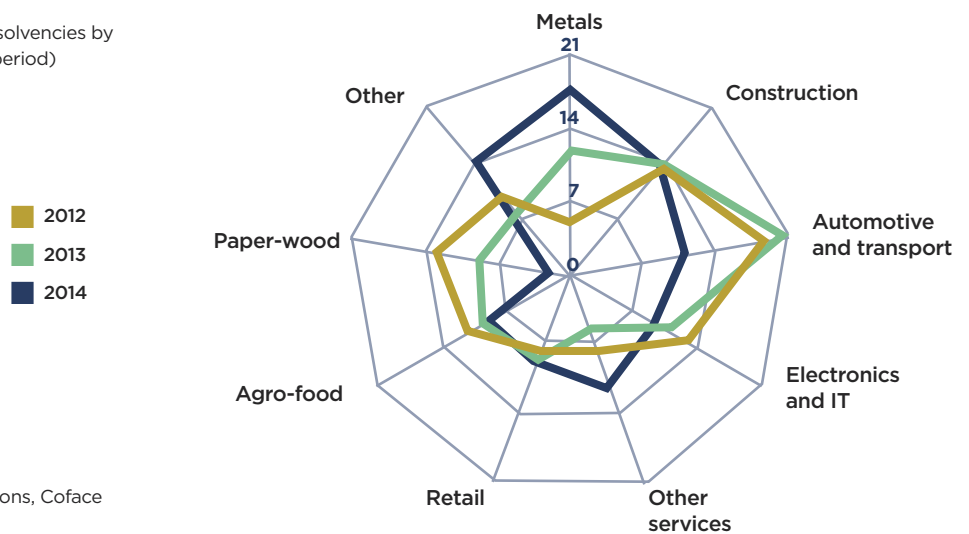
over 2014 as a whole against -0.3% in 2013. Meanwhile, some sectors stand out for their improvement. This is particularly the case with chemicals which, with 575 failures, recorded a fall of -5.4% over the year. The sector has benefited from the fall in oil prices, which are involved in the manufacture of many chemical compounds.

Chart 5
Sector risk analysis (2014)



Sources : Scores & Décisions, Coface

Chart 6
TOP 100 of the largest insolvencies by turnover size (12-month period)



Sources : Scores & Décisions, Coface

METALS

Moderation in metal price and sluggish industrial production

Insolvencies declined by 2.0% in 2014 with 1,103 businesses concerned. But, at the same time, the average size of the failing businesses has increased since 2013 making it the most represented sector in the 100 largest insolvencies in 2014 (*chart 6*). We note that the number of employees concerned increased significantly over the period to reach 11,371 (+18.9%). It is moreover one of the three sectors together with services to individuals (+4.8%) and distribution (+0.5%), which saw its costs rise (+36.3%). The Ile-de-France accounts for 17.9% of the total, stable relative to 2013 (-2.0%).

It is the wholesale trade, industrial supplies and equipment sectors which are most affected (+7.5%). They represent 15.7% of the total and have seen insolvencies increase by 7.5%. There are many explanations for these difficulties: we must mention the decline of demand, and therefore the metal price, but still more the weakness of French industrial production. As a whole, it declined by -1.1% in 2014 and by up to -4% in the extractive industries. Moreover, the industrial machinery sub-sector (13.5% of the total) saw its business failures increase by 18.3% in 2014.

DISTRIBUTION

Lower household spending on food and downward pressure on prices

Insolvencies in the sectors linked to distribution fell by 5.7% in 2014 to reach 5,727 businesses. But, if the employees threatened also declined at 11,143 (-11.3%), the average size, measured by average turnover, increased by 14.8%. Two major trends are upsetting distribution. First, the expansion of Internet sales is still hampering catalogue-sale businesses, whose failures rose by 8.5% in 2014 (6.2% of the total). At the same time, general food are subject to the moderation in household spending and fierce competition from the mass distribution, which is driving prices down⁽⁴⁾. The central purchasing merging between the major supermarkets begun in September 2014 is intensifying with Système U and Auchan, which began exclusive negotiations in February 2015 to deepen their partnership.

AUTOMOTIVES AND TRANSPORT

Some improvement but weaknesses persist for transporters

With 3,994 business insolvencies in 2014, the transport sector has recorded a fall of 5.0%. In spite of the failures of large groups such as the SNCM in November 2014, the number of employees threatened has decreased by -18.9%

to 17,265. But, in general, the sector is in better health than in 2013. As to the regions, the Ile-de-France (20.3% of insolvencies) has seen its failures stabilise (-0.1%). Freight and local road transport has been badly affected with a 7% rise in failures against -1.4% for France as a whole (34% of business failures in Ile-de-France). This sector is experiencing cyclical but also structural difficulties, because of strong competition with East European road transport companies and a still cumbersome cost structure⁽⁵⁾ which, following the suspension of the eco-tax in 2014, is expected to intensify in 2015 through a four euro cent tax increase on diesel fuel.

The automotives sector, for its part, saw a fall in the number of business failures in 2014 relative to 2013, particularly because insolvencies in this sector, such as vehicle sales, maintenance and repairs, known for their importance in the sector's insolvencies as a whole, are showing an annual fall (-0.8% and -2.7% respectively).

TEXTILES

The recovery of household demand is benefitting the sector

Though, at the European level, 2014 seems to have been a year of recovery⁽⁶⁾, the textile and clothing industry in France is also benefitting from the modest recovery of demand. Household consumption of clothing and leather goods grew by 0.2% in 2014 (INSEE). So 2,212 business failures were recorded, representing a fall of 7.7%. The retail clothing trade, which represents 54.6% of the sector also saw business failures decline by 6.4%. But big failures over recent months are undermining this trend. Among others, we can cite the receivership of the shoe manufacturer BATA in November 2014 (turnover 91 million euros). Against this background, the average size of insolvencies in this sector, has increased by +24.6% lead to an increase of jobs threatened by +25.3% to 6 759 (the worst sectorial degradation).

LEXIQUE

- **Insolvency:** legal insolvency, namely receivership or liquidation by the court
- **Insolvency cost:** total trade payables of the insolvent companies
- **Micro enterprise:** less than 10 employees
- **VSE** (very small enterprise): 10 to 19 employees
- **SME** (small and medium-sized enterprise): 20 to 249 employees
- **MSE** (medium-sized enterprise): 250 to 4,999 employees
- **Large enterprise:** over 4,999 employees
- **Age:** number of years elapsed between birth and date of the event (receivership or liquidation)

(4) Coface, "Insolvencies barometer, December 2014", page 4

(5) Coface, "French Road Goods Transport facing cyclical difficulties" March 2014

(6) Coface, "Panorama sectors", November 2014, pages 6 and 7

RESERVATION

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