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Indebtedness of Slovenian Companies

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Summary

The working paper analyses indebtedness and performance of all Slovenian companies (particularly in terms of profitability and liquidity) using data from companies' balance sheets and profit and loss statements. Covering the period from 2006 (when the new Slovenian Accounting Standards, SAS 2006, were introduced) to 2014, the paper focuses on changes in the past year and changes with regard to 2008. It distinguishes between "conventional" and "unconventional" companies (i.e. those classified as holding, financial leasing according to the Standard Classification of Activities, zero-employee companies, and DARS d.d., the Motorway Company of the Republic of Slovenia) and aims at identifying over-indebted and the most problematic companies in the Slovenian economy.

Indebtedness and over-indebtedness of Slovenian companies peaked in 2009; ever since, companies have been constantly deleveraging, particularly in the last two years, and have thus almost reached debt and debt overhang levels of 2006. Up to and including 2011, bank debt declined mainly as a result of the winding-down of companies, but since 2012 the bank debt of surviving companies has also been shrinking at a rapid pace. The deleveraging of surviving companies was most vigorous last year. These developments were also reflected in a significant improvement in the indicators of companies' ability to repay their debt obligations. The total debt-to-liabilities ratio is thus the lowest in the entire period, at 58.1%; the interest coverage ratio is 10, the highest in the entire period analysed, while the financial leverage (5.5 years) is around the level of 2007. Liquidity and profitability rose notably in 2014. Liquidity has been improving ever since the beginning of the crisis (except in 2012) and is the highest in the entire observation period on all indicators, while the indicators of profitability have not returned to the pre-crisis levels yet. The profitability of companies fell sharply in the first year of the crisis and hit bottom in 2012, when it was even negative. In 2011 it improved, only to decline again amid the further deterioration of the situation in 2012 and 2013, while in 2014 it rose notably as a result of significantly higher net profits.

Unconventional companies, which account for a solid third of all companies in Slovenia, have also been deleveraging since 2010 (in particular in the last two years) and have already almost reached the levels of indebtedness and debt overhang of the pre-crisis year 2006. Nevertheless, they still account for as much as half of total debt overhang (EUR 8.6 bn), and more than a third (EUR 10.8 bn) of total financial debt, which still constitutes a significant burden on banks' balance sheets. However, only holding and leasing companies have been reducing indebtedness and over-

indebtedness since 2009 and particularly in the last two years, so that their financial debt and debt overhang are at the lowest levels in the entire period (EUR 3.9 bn and EUR 3.7 bn, respectively). Zero-employee companies have even increased their financial debt and debt overhang in comparison with 2008 (to EUR 4.3 bn and EUR 3.6 bn, respectively), both indicators thus being the highest in the entire period analysed. Moreover, their financial debt is, for the first time, higher than that of holding and leasing companies, and the debt overhang of the two types of companies is also almost the same, for the first time. The indicators of unconventional companies' ability to repay their debt obligations deteriorated last year, in particular those related to EBITDA, which declined notably in 2014. These indicators have thus not reached the pre-crisis levels yet; only the ratio of total debt-to-liabilities has already returned to the pre-crisis level. The indicators of profitability and liquidity of these companies, having been falling for a long period, deteriorated further in 2014, in particular the indicators of profitability, which are significantly below the pre-crisis level (ROA is even negative at -4.5%). The same holds true for the indicators of liquidity, with the exception of the "narrower" cash ratio, which has been improving since 2009 and was approximately at the 2006 level last year. Unconventional companies account for more than a third of financial debt and half of debt overhang, they generate only 3.6% of value added and employ less than one percent of the total workforce. Given their insignificant contribution to economic activity, they are not covered in detail in our analysis.

To provide a more comprehensive picture of over-indebtedness of the Slovenian economy, we focused only on the category of zero-employee companies among unconventional companies; they belong to micro companies and – although they generate only around 1 percent of total value added in the economy – account for as much as 35.3% of all companies in the economy and generate 14% of total financial debt and around 20% of total debt overhang. Among these companies, we identified only over-indebted and the most problematic ones (i.e. those with financial debt and a negative EBITDA) and analysed in detail the structure of exposure according to selected activities and company age. More than a third of zero-employee companies were over-indebted in 2014. These companies generated almost the whole financial debt (EUR 4.1 bn) and the total debt overhang (EUR 3.6 bn). A significant part of financial debt and debt overhang is concentrated in the sectors of real estate, construction, and professional, scientific and technical activities (financial debt: EUR 3.06 bn; debt overhang: EUR 2.71 bn). These sectors are highly dependent on domestic demand, so that resolving their debt problems will also be crucially related to consumer and business confidence in the future. The age structure of companies indicates that almost half of financial debt and debt overhang is concentrated in mature companies, followed by old, start-up and young companies. The most problematic companies, i.e. those not able to repay their debts alone, account for more than a fifth. They have as much as EUR 2.6 bn in financial debt or debt overhang (in companies with a negative EBITDA, the total financial debt is regarded as debt overhang). Their age structure and the structure of financial debt/debt overhang by activity are similar to those of over-indebted zero-employee companies.

Similarly, conventional companies, which account for almost two thirds of all companies, have also been increasingly deleveraging ever since 2010 (in terms of total debt, since 2009) and have almost reached the pre-crisis levels of indebtedness and debt overhang recorded in 2007. They still account for two thirds of financial debt (EUR 20.2 bn) and half of total debt overhang (EUR 8.8 bn). Within that, as much as EUR 3.9 bn is debt with the interest coverage ratio less than 1, which means that companies are unable to finance such debt with current operations. With the decline in indebtedness, the indicators of the ability of companies to pay off their debt obligations also improved in the last four years, particularly in 2014, and even exceeded the levels before the crisis. The total debt-to-liabilities ratio for all conventional companies has been declining since 2009. Last year, it stood at 54.4%, which is the lowest figure in the entire observation period. Interest coverage, which indicates to what extent EBITDA can fall without jeopardising a company's ability to cover interest payments, has been improving for all conventional companies ever since 2011. In

2014, it totalled 13, which is the highest ratio in the whole period analysed. The financial leverage has also been improving since 2011 and amounted to 3.6 years in 2014, the lowest figure in the entire period. More than half of the total debt in 2014 (EUR 38.8 bn) was accounted for by financial liabilities, particularly liabilities to banks (59% or EUR 12 bn), whose share in financial debt fell by around 15 percentage points in the analysed period. The decline was particularly noticeable in the last three years, given that the volume of bank debt shrank by EUR 5.4 bn. Almost half of the decline took place in 2014. In terms of bank debt maturity, long-term liabilities to banks predominate (almost 66%). Since 2008, their volume has increased by almost 21 percentage points on account of short-term liabilities, meaning that banks have most probably been replacing non-performing short-term loans with long-term ones to alleviate liquidity pressures on companies. Also important are operating liabilities, which account for 39% of total debt and have similar dynamics to liabilities to banks. They fell by 8.2 percentage points in the period analysed, most likely owing to lower demand during the crisis. Among operating liabilities, the largest share is recorded by accounts payable to suppliers (60% of operating liabilities, or EUR 9.1 bn). It remained constant throughout the analysed period, declining only by 3 percentage points. Liquidity and profitability rose notably in 2014. Having been improving ever since the beginning of the crisis, liquidity is the highest in the entire period. After decreasing notably in the first year of the crisis, profitability, sales revenues and EBITDA increased at different rates in the following years. Last year, they improved notably and almost reached the levels recorded before the crisis. Returns reached their lows in 2010. In 2011 they improved appreciably, maintained that level in 2012 owing to the adverse situation, and in 2013 even declined, before rising notably last year as a result of significantly higher net profits (ROA: 2.5%).

The deleveraging was most pronounced in over-indebted conventional companies, which account for approximately 30% of all conventional companies, while the indebtedness of less indebted conventional companies, which account for as much as 61.6% of all conventional companies, increased last year. Their financial debt totals EUR 6.9 bn and is at the level of 2007. Their debt overhang equals zero, as these companies are not over-indebted by definition. They had been deleveraging primarily in the first two years of the crisis, mainly through banks, where they also deleveraged in 2012 and 2013. Over-indebted conventional companies have been reducing financial debt and debt overhang since 2010, but more than a third of declines took place last year. These two indicators have thus already come close to the level of 2007 (financial debt: EUR 13.3 bn; debt overhang: EUR 8.8 bn). The indicators of companies' ability to pay off their debts have improved for less indebted conventional companies, which reached (and some even exceeded) the pre-crisis levels on all indicators, in contrast to over-indebted conventional companies, which have achieved the pre-crisis level only on the total debt-to-liabilities ratio. In less indebted conventional companies, the total debt-to-liabilities ratio amounted to 43.2% in 2014 (the lowest ratio in the entire period analysed), the interest coverage ratio totalled 33.4 (the highest ratio in the entire period), and the financial leverage was 1.3 years (the level of 2007). In over-indebted conventional companies, the total debt-to-liabilities ratio totalled 72.7% last year (the level of 2007), the interest coverage ratio was 1.6 (the lowest in 2013, at 1.3) and the financial leverage was 31.3 years (the highest in 2013, at 36.2 years). These two company types also differ in terms of total debt structure. As much as 40% (EUR 7.8 bn) of the total debt of over-indebted conventional companies is accounted for by financial liabilities to banks, while accounts payable to suppliers constitute only 16% (EUR 3.2 bn). Conversely, the share of accounts payable to suppliers in less indebted conventional companies is higher and accounts for as much as 31% (EUR 5.8 bn) of the total debt, while financial liabilities to banks represent only 22% (EUR 4.1 bn). The maturity structure of bank loans of over-indebted conventional companies has changed, while in less indebted conventional companies long-term borrowing already predominated before the crisis. The indicators of profitability, margins and cash-flow improved significantly in 2014, so that less indebted conventional companies have already reached, and some of the even exceeded, their pre-crisis levels (with the exception of the EBITDA margin). Their ROA amounts to 6.4%. On the other hand, over-indebted conventional companies still report negative returns on assets (ROA: -2.8%). Their negativity eased slightly last year, but they are still

below the pre-crisis level on all indicators. In both less indebted and over-indebted conventional companies the indicators of liquidity reached pre-crisis levels last year, with the exception of the coefficient of "broader" cash ratio of over-indebted companies.

Over-indebted conventional companies employ around 28% of the total workforce of conventional companies and generate 21% of the value added and 66% of the total financial debt of conventional companies. The first measures were aimed at large enterprises, which account for only 0.4% of all over-indebted companies, but employ almost 41% of the total workforce of these companies, create around 46% of their value added and generate the bulk of their financial debt (EUR 5.3 bn) and debt overhang (EUR 3.1 bn). Micro, small and medium-sized enterprises (SMEs), which are to be targeted by next measures, account for as much as 99.6% of all over-indebted companies (almost 80% of them being micro enterprises) and employ 59.2% of the total workforce of these companies and generate 54.2% of their value added. Their financial debt accounts for 60.4% (EUR 8 bn) and their debt overhang for 64.5% (EUR 5.7 bn) of the total financial debt and debt overhang of over-indebted companies. A breakdown by activity shows that financial debt and debt overhang are heavily concentrated in the sectors of wholesale and retail trade and repair of motor vehicles, manufacturing, professional, scientific and technical activities, and energy supply. In large enterprises, almost 80% of debt overhang is concentrated in energy supply (EUR 0.9 bn), manufacturing (EUR 0.88 bn), and wholesale and retail trade and repair of motor vehicles (EUR 0.7 bn). In SMEs, almost 65% of debt overhang is concentrated in wholesale and retail trade and repair of motor vehicles (EUR 1.1 bn), professional, scientific and technical activities (EUR 0.9 bn), manufacturing (EUR 0.8 bn), and real estate activities (EUR 0.8 bn). A breakdown by age indicates the highest concentration of financial debt and debt overhang in old enterprises, followed by mature, young and start-up enterprises. In large enterprises, almost the entire debt overhang is concentrated in old enterprises (EUR 3 bn), followed by young (EUR 0.09 bn), mature (EUR 0.05 bn) and start-up enterprises (EUR 0.01 bn). In SMEs, debt overhang is also most heavily concentrated in old enterprises (EUR 3.4 bn), followed by mature (EUR 1.4 bn), young (EUR 0.5 bn) and start-up enterprises (EUR 0.4 bn). Almost half of over-indebted companies (or 15% of all conventional companies) are not able to repay their debts alone. Their existence in the long term is questionable. Only 0.2% of these are large enterprises, which make up slightly more than a fifth of the total workforce of these companies, create close to a third of their value added and generate the least financial debt of all size classes (EUR 0.2 bn). All SMEs together account for as much as 99.8% of the most problematic companies (around 87% of them being micro enterprises), employ 79.1% of the total workforce of these companies and generate as much as 68% of their value added. Their financial debt or debt overhang accounts for 92.6% (or EUR 2.6 bn) of the total financial debt or debt overhang of the most problematic companies. The structure of over-indebtedness by activity indicates the highest debt overhang concentration in professional, scientific and technical activities, manufacturing, wholesale and retail trade and repair of motor vehicles, and construction. In large enterprises, as much as half of debt overhang is concentrated in manufacturing (EUR 0.11 bn) and around a quarter in accommodation and food service activities (EUR 0.05 bn). In SMEs, the debt overhang is mainly concentrated in professional, scientific and technical activities (EUR 0.53 bn), followed by wholesale and retail trade and repair of motor vehicles (EUR 0.46 bn), manufacturing (EUR 0.41 bn), and construction (EUR 0.3 bn). According to the age structure, the concentration of debt overhang is highest in old, followed by mature, start-up and young enterprises. In large enterprises, almost the whole debt overhang is concentrated in old enterprises (EUR 0.19 bn) and the remainder in mature ones (EUR 0.01 bn). In SMEs, EUR 1.48 bn of debt overhang is concentrated in old enterprises, followed by EUR 0.66 bn in mature, EUR 0.29 bn in start-up, and EUR 0.18 bn in young enterprises.

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