

November 2012

Monitor of Bankruptcies, Insolvency Proceedings and Business Closures

Third Quarter 2012





55k companies exited the market in the first 9 months of 2012

Two hundred companies a day going out of business

Summary

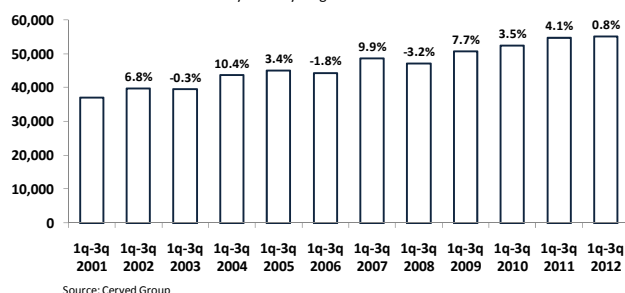
The effects of the economic crisis on Italy's productive fabric go well beyond the wave of bankruptcies that struck in the second half of 2008. Expanding the field of analysis in our Monitor (starting with the current issue) from only bankruptcies and voluntary arrangements with creditors to cover all forms of insolvency proceedings as well as voluntary liquidations, it becomes apparent that the recession has had an even more forceful impact. Between January and September 2012, about 55,000 companies went out of business, a record high in the past decade, even surpassing the very gloomy figure registered over the same period in 2011 by 0.8%.

Cerved Group's archives indicate that there was a year-on-year increase in every form of business closure in the first nine months of 2012: bankruptcies rose 2% to touch 9k, other insolvency proceedings jumped 7.3% to 1,500, and voluntary liquidations increased 0.3% to 45k. In particular, there was a sharp increase in voluntary liquidations among companies whose balance sheets were not considered risky, and this is alarming because it signals that the companies going out of business are not just those in troublesome financial situations, but also many with sound fundamentals that however do not consider the market prospects profitable.

Data on joint-stock companies (excluding dormant ones) provide precise measurements of the recession's impact on the various sectors and geographical areas of the Italian economy, and highlight some trends that are not evident based on an analysis of defaults alone. In the industrial sector, for example, the number of companies in a financial crisis has been decreasing for two years, yet the number of

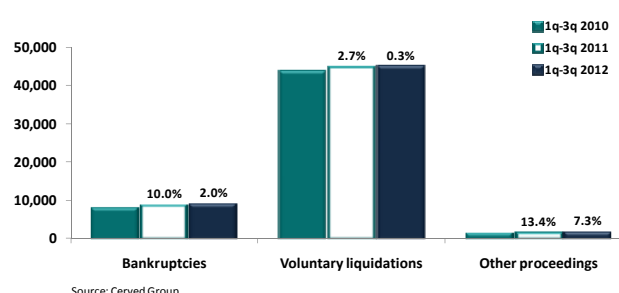
Companies liquidated or in insolvency proceedings

Number of insolvency and liquidation proceedings:
year-on-year growth rates



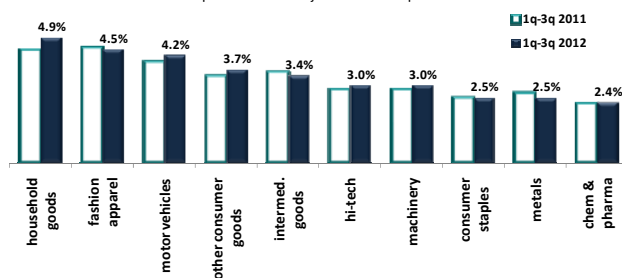
Businesses ceasing activity, by type of procedure

Number of procedures and year-on-year growth rates



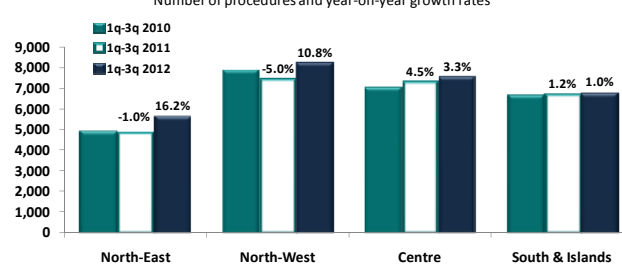


Industrial sector: exit ratios by sector
Number of insolvency proceedings and liquidations,
as percent of active joint-stock companies*



Source: Cerved Group. *excludes companies that did not submit valid financial statements in the 3 years prior to winding-up; denominator includes only companies reporting positive assets on the balance sheet in those 3 years

Insolvency proceedings and liquidations of joint-stock companies* by geographical area
Number of procedures and year-on-year growth rates



Source: Cerved Group. *excludes joint-stock companies that did not submit any valid financial statements in the three years prior to winding-up

liquidations has been growing: calculated in this way, the total number of joint-stock companies that ended operations (or had to restructure their debts) rose even in the manufacturing sector, by 1.5% year-on-year, in the first nine months of 2012. However, this upward trend is slower than the increases seen in the service sector (+6.3%) and the construction sector (+9.9%). The *exit ratio*, defined as the number of companies that ceased business operations and/or underwent some form of insolvency proceedings as a percentage of the total number of joint-stock companies that had assets in their balance sheets three years earlier, indicates that the compartments of the industrial sector that is suffering most from the recession are household goods (+4.9% year-on-year in the first nine months of 2012), fashion/apparel (+4.5%) and, surprisingly enough, energy and utilities (+4.5%), where a boom in newly established businesses was accompanied by a high number of liquidations.

In the North-East of Italy, much like in the industrial sector, the number of defaults decreased but voluntary liquidations increased sharply, resulting in a significant overall increase in the total number of closures or crisis-related proceedings. The number of companies that went out of business in the first nine months of 2012 in the North-East was 16% higher than in the first nine months of last year, bringing the area's exit ratio very close to the levels seen elsewhere in the country. Among individual regions, the most heavily affected by the recession in the first nine months of 2012 were Marche (exit ratio of 3.7%), Lombardy (3.7%) and Apulia (3.6%).



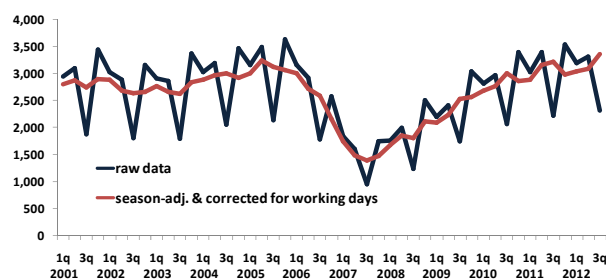
Bankruptcies

In the third quarter of 2012, 2,315 bankruptcy proceedings were opened, 4.4% more than in the same period of 2011 and 8.9% more than in the second quarter of this year on a seasonally adjusted basis. This takes the total for the first nine months of the year to nearly 9,000, 2% more than in the same period of 2011, which is the previous record year for bankruptcies.

In the first three quarters combined, bankruptcies rose by 5.6% among joint-stock companies (which account for over 70% of the total number of cases), whereas the downward trend continued among partnerships and sole proprietorships (-7.1%) and among other forms of businesses (-6.5%). Geographical trends are not uniform: bankruptcies kept on growing in the North-West (+5.9% year-on-year in 9M 2012) and in the Centre (+4.4%), stopped rising in the South and islands (-0.1% year-on-year) and decreased in the North-East (-3.7%). By sector, the industrial sector continued to improve: the 1,600 bankruptcies recorded in the first nine months of 2012 were 7.1% less than in the previous year. In contrast, insolvency increased in the service sector (+2.8%) and to an even greater extent in construction (+6.1%).

Bankruptcy trend

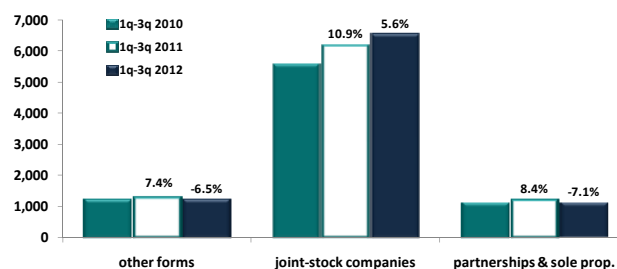
quarterly data



Source: Cerved Group

Bankruptcies: breakdown by legal status

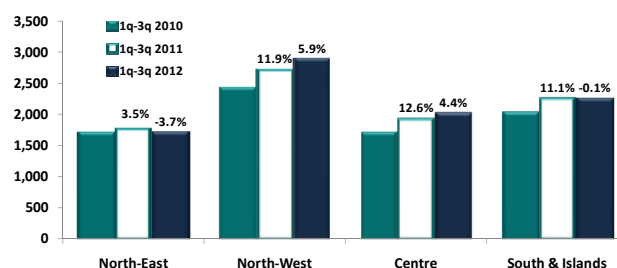
Number and year-on-year growth rates



Source: Cerved Group (*)

Bankruptcies: geographical breakdown

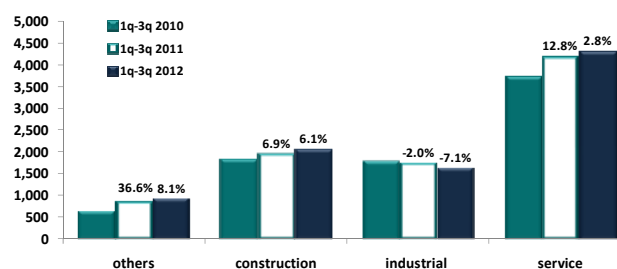
Number and year-on-year growth rates



Source: Cerved Group (*)

Bankruptcies: breakdown by macro-sector

Number and year-on-year growth rates



Source: Cerved Group (*)

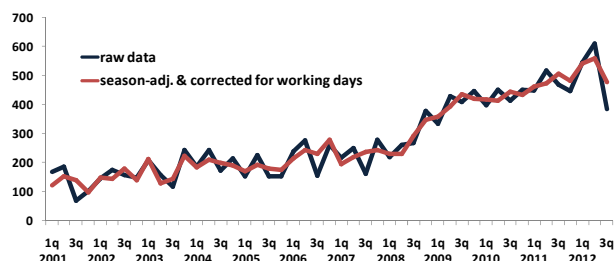


Non-bankruptcy insolvency proceedings

Between July and September, 384 insolvency proceedings¹ other than involuntary bankruptcies began in Italy, 18% less than in the third quarter of 2011 and 15% less than the seasonally adjusted figure for the second quarter of 2012. However, this decrease did not fully compensate for the negative trend seen in the first half of the year: over the first nine months of 2012, non-bankruptcy insolvency proceedings rose 7.3% year-on-year to 1,540.

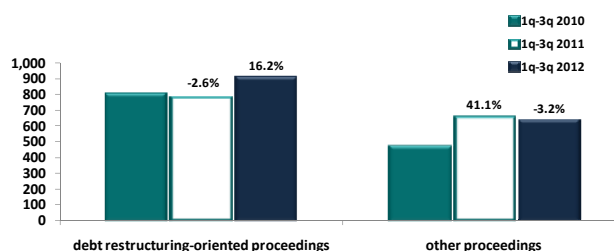
Within this category of insolvency proceedings other than involuntary bankruptcies, a distinction can be made between procedures that aim to restructure debts and the company itself through a partial payment of outstanding debts (i.e., debt restructuring agreements, voluntary arrangements with creditors and, for corporations, administration) and other types of proceedings. The data show that in the first nine months of the year, restructuring-oriented procedures rose by 16.2%, including an 18% increase in voluntary arrangements; meanwhile, there was a 3.2% decrease in the other types of insolvency proceedings.

Non-bankruptcy insolvency proceedings
quarterly data



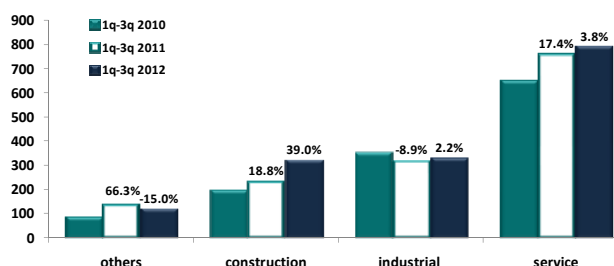
Source: Cerved Group. Excludes proceedings for business registry cancellations, dissolutions by regulatory authorities and court-ordered proceedings.

Non-bankruptcy proceedings: breakdown by type
Number and year-on-year growth rates



Source: Cerved Group. Excludes proceedings for business registry cancellations, dissolutions by regulatory authorities and court-ordered proceedings.

Non-bankruptcy proceedings by macro-sector
Number and year-on-year growth rates



Source: Cerved Group. Excludes proceedings for business registry cancellations, dissolutions by regulatory authorities and court-ordered proceedings.

¹ Excludes business registry cancellations, dissolutions by regulatory authorities and court-ordered proceedings (court-mandated administration of assets, compulsory liquidation and precautionary seizures of assets or shares).



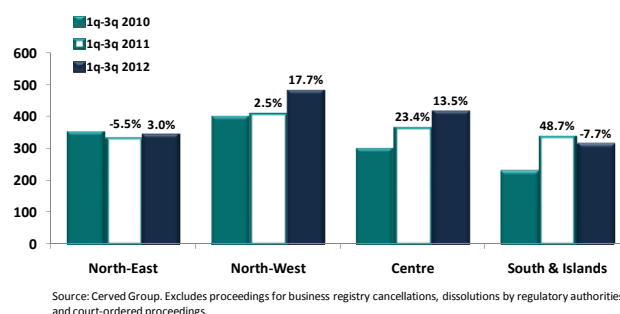
From a sector perspective, non-bankruptcy insolvency proceedings rose sharply in construction (+39%), and went up slightly in services (+3.8%) and manufacturing (+2.2%). Trends by geographical area were not uniform: strong increases were registered in the North-West (+17.7%) and in the Centre (+13.5%), with a more moderate 3% increase in the North-East and a decrease of 7.7% in the South and islands.

Voluntary liquidations

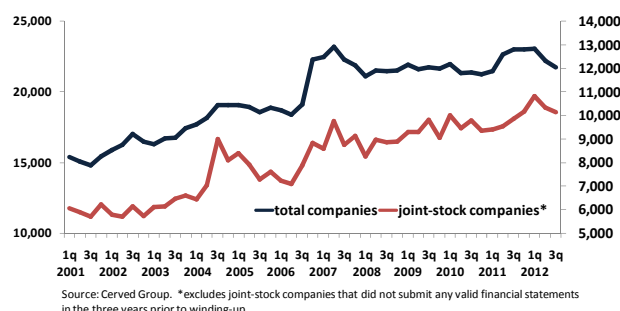
Between July and September 2012, just under 12,000 companies in good standing (without any prior insolvency proceedings to their names) were liquidated, a 9% decrease from the same period of 2011 and 1.8% less than the seasonally adjusted number for the previous quarter. The decrease seen in the last three months brings the nine-month total to 45,000 voluntary liquidations, a 0.3% year-on-year increase.

By examining the financial statements submitted by the joint-stock companies that have since been liquidated, we can distinguish between voluntary liquidations among companies that were effectively doing business and those that were effectively dormant, active only on paper. Unofficially dormant companies,

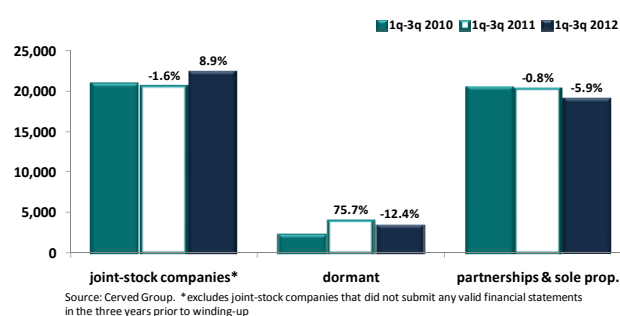
Non-bankruptcy proceedings by geographical area
Number and year-on-year growth rates



Trend in voluntary liquidations
quarterly data, adjusted for season and number of working days



Voluntary liquidations by legal status
Number and year-on-year growth rates



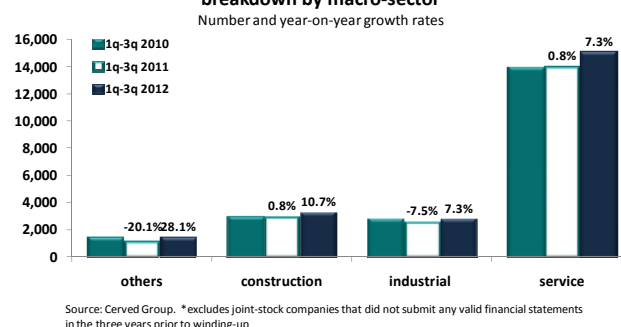


if defined as companies that did not submit any valid financial statements for the three years prior to liquidation, account for around 13% of the joint-stock companies liquidated in the first nine months of 2012. Over that nine-month period, the number of “real” companies liquidated rose substantially (+8.9%), while liquidations among unofficially dormant companies fell by 12.4%; among partnerships and sole proprietorships, voluntary liquidations fell by 5.9%.

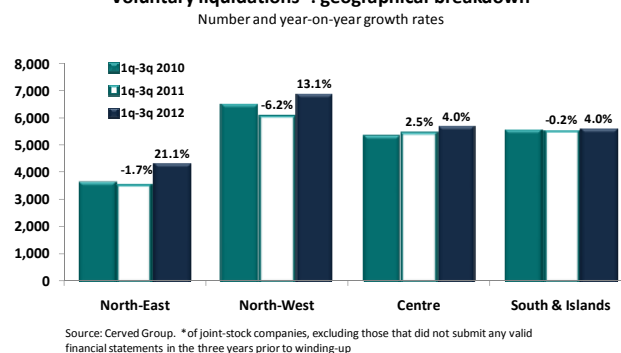
Focusing on only the joint-stock companies in good standing that submitted at least one set of financial statements in the three years prior to liquidation, voluntary windings-up increased in all three broad sectors of the economy: +10.7% in construction, +7.3% in the industrial sector (inverting the trend seen last year), and +7.3% in services.

This increase in voluntary liquidations is a phenomenon seen all across the Boot, with a sharp increase in the North-East (+21%) and North-West (+13.1%), and a more moderate increase of 4% in central and southern Italy.

**Voluntary liquidations of joint-stock companies*:
breakdown by macro-sector**



Voluntary liquidations*: geographical breakdown





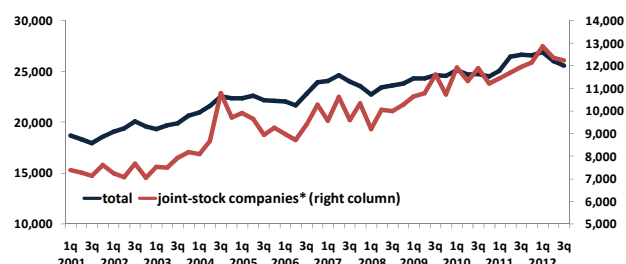
Insolvency proceedings plus liquidations

Between July and September, more than 14,000 companies either began insolvency proceedings or liquidation; this is a 7.5% decrease from the same period of 2011 and 1.6% less than in the previous quarter of 2012 on a seasonally adjusted basis. Despite this third quarter drop, the number of companies that ceased business activity – in whatever shape or form – remained very high, over 55,000, which is 0.8% more than in the first nine months of 2011. There was an increase in each category of closure analysed: +2% for bankruptcies, +7.3% for other insolvency proceedings, and +0.3% for voluntary winding-up (liquidations).

Restricting the field to joint-stock companies that were truly active on the market (i.e., excluding unofficially dormant companies, partnerships and sole proprietorships), the trends appear even worse: there were about 8,000 insolvency proceedings or voluntary liquidations in the third quarter (+1.4% year-on-year), taking the nine-month total to over 28,000 (+7.2% year-on-year). With regard to the form of business termination, voluntary liquidations rose sharply (+8.9%), bankruptcies rose slightly (+1.1%), as did other types of insolvency proceedings (+0.9%).

Insolvency proceedings plus liquidations

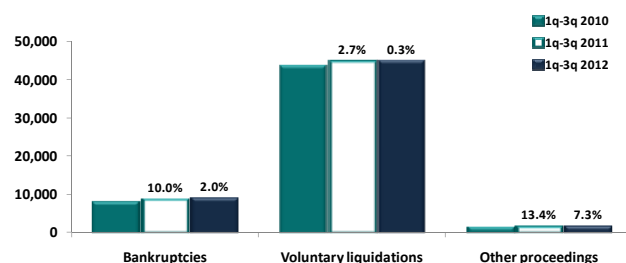
quarterly data, adjusted for season and number of working days



Source: Cerved Group. *excludes companies that did not submit any valid financial statements in the three years prior to winding-up

Businesses ceasing activity, by type of procedure

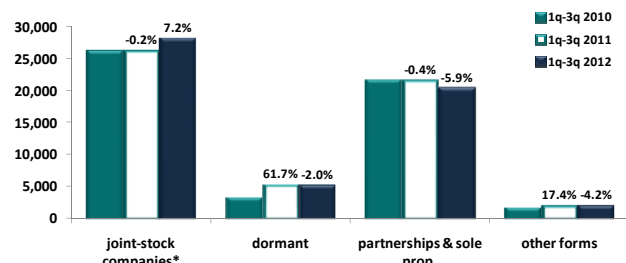
Number of procedures and year-on-year growth rates



Source: Cerved Group

Companies in liquidation or insolvency proceedings: breakdown by type of company

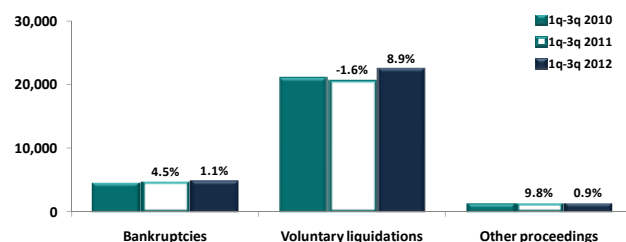
Number and year-on-year growth rates (first 3 quarters of each year)



Source: Cerved Group. *excludes companies that did not submit any valid financial statements in the three years prior to winding-up

Joint-stock companies* ceasing activity: breakdown by type of procedure

Number of procedures and year-on-year growth rates

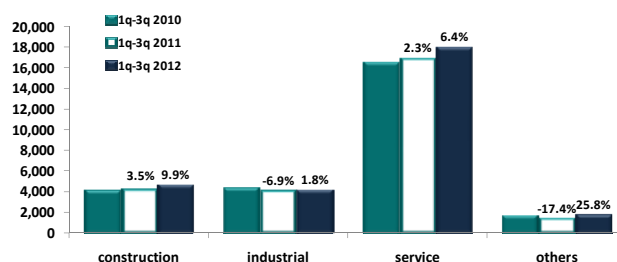


Source: Cerved Group. *excludes companies that did not submit any valid financial statements in the three years prior to winding-up



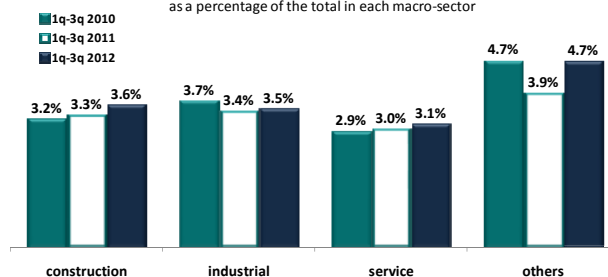
Breaking the figures down by sector, the data indicate that in the first nine months of 2012, there was an increase in the number of insolvency crises plus voluntary liquidations across the whole economy, with a particularly sizeable jump in construction (+9.9%), a 6.4% increase in the service sector and a more limited 1.8% rise in the industrial sector, although this marks an inversion of the trend seen in the previous quarter. The construction sector was where the highest number of companies went out of business: 3.6% of building companies with assets on their previous balance sheets ceased doing business; this rate is only slightly higher than the 3.5% in the industrial sector and half a percentage point above the 3.1% seen in the service sector. Within the industrial sector, the classic “Made in Italy” manufacturing sectors are the ones that have been suffering most: the company exit ratio has reached 4.9% in household furnishings, 4.5% in the fashion/apparel industry (although this is an improvement from last year), and 4.2% in motor vehicles. In contrast, the sectors with the lowest business mortality rates are chemicals and pharmaceuticals (2.4%), steel (2.5%) and consumer staple goods (2.6%). Outside the manufacturing sectors, the exit ratio in the

Insolvency proceedings and liquidations* by macrosector
Number of procedures and year-on-year growth rates



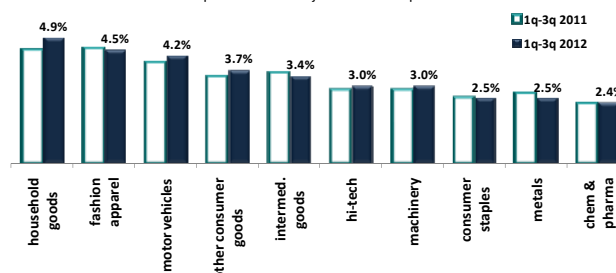
Source: Cerved Group. * of joint-stock companies, including those that did not submit any valid financial statements in the three years prior to winding-up

Exit ratios by macro-sector
Closures of operating joint-stock companies* as a percentage of the total in each macro-sector



Source: Cerved Group. *excludes companies that did not submit valid financial statements in the 3 years prior to winding-up; denominator includes only companies reporting positive assets on the balance sheet in those 3 years

Industrial sector: exit ratios by sector
Number of insolvency proceedings and liquidations, as percent of active joint-stock companies*



Source: Cerved Group. *excludes companies that did not submit valid financial statements in the 3 years prior to winding-up; denominator includes only companies reporting positive assets on the balance sheet in those 3 years



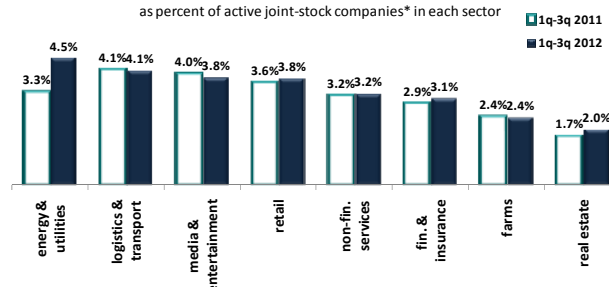
energy and utilities sector was very high in the first nine months of 2012 (4.5% of all companies with assets on the balance sheet) despite a boom in new alternative energy businesses. Not far behind is the logistics and transport sector, where the exit ratio is 4.1%, followed by the media, communication, entertainment and retail sectors (3.8%). On the other hand, the types of businesses where the exit ratio came out lowest are real estate agencies (2%), farms (2.4%), and financial and insurance service companies (3.1%).

Geographically speaking, insolvencies and voluntary liquidations combined rose at a double-digit pace in northern Italy, and at a more moderate rate in central and southern Italy. In the North-East, just under 5,600 joint-stock companies closed in the first nine months of the year (16.2% more than in 2011), while in the North-West, about 8,000 closed (+10.8% year-on-year). There was a 3.3% increase from last year in the Centre and a 1% increase in the South and islands. Exit ratios are relatively similar among geographical areas, with the highest in the Centre at 3.4% and the lowest in the North-East at 3.1%.

Regional differences are more marked, with Lombardy and Marche showing the highest exit ratios (3.7%), followed by 3.6% in Apulia and

Services and other sectors: exit ratios

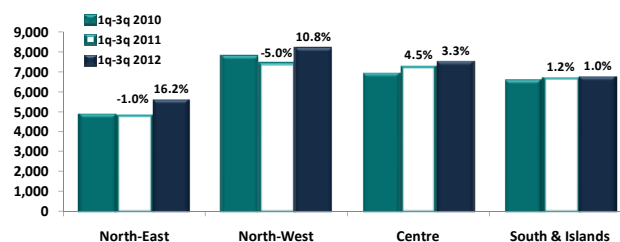
Number of insolvency proceedings and liquidations, as percent of active joint-stock companies* in each sector



Source: Cerved Group. * excludes companies that did not submit valid financial statements in the 3 years prior to winding-up; denominator includes only companies reporting positive assets on the balance sheet in those 3 years

Insolvency proceedings and liquidations of joint-stock companies* by geographical area

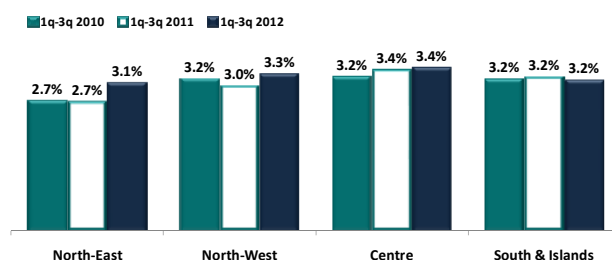
Number of procedures and year-on-year growth rates



Source: Cerved Group. * excludes joint-stock companies that did not submit any valid financial statements in the three years prior to winding-up

Exit ratios by geographical area

Insolvency proceedings and liquidations of joint-stock companies*, as a percentage of the total active in each area



Source: Cerved Group. * excludes companies that did not submit valid financial statements in the 3 years prior to winding-up; denominator includes only companies reporting positive assets on the balance sheet in those 3 years

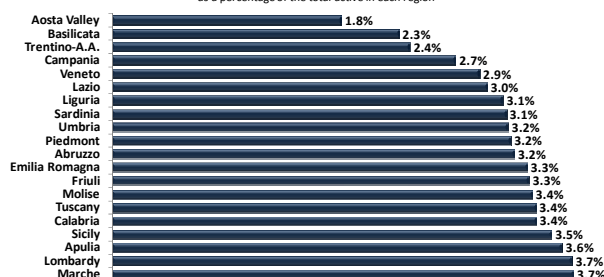


3.5% in Sicilia; on the opposite end, a relatively small portion of companies closed in Aosta Valley (1.8%), Basilicata (2.3%) and Calabria (2.4%).

Breaking down the figures by company size, the majority of companies that began insolvency proceedings or voluntary liquidation were micro-companies with balance sheet assets totalling between zero and €2 million (three years prior to the start of proceedings); in this size category, the number of insolvency proceedings and liquidations rose 7.3% year-on-year from January to September. There were, however, higher growth rates of insolvency proceedings and liquidations moving up the size scale: +11.6% among small companies (€2-10 million of assets on the balance sheet), +20.8% among medium-sized companies (€10-50 million of assets), and +42.5% among large companies (those with over €50 million of assets).

Exit ratios by region

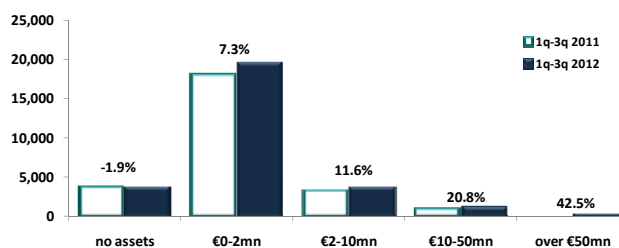
Insolvency proceedings and liquidations of joint-stock companies*, as a percentage of the total active in each region



Source: Cerved Group. *excludes companies that did not submit valid financial statements in the 3 years prior to winding-up; denominator includes only companies reporting positive assets on the balance sheet in those 3 years

Insolvency proceedings and liquidations, by company size

Year-on-year growth in the number of proceedings*, broken down by amount of assets reported in the balance sheet three years prior to the start of proceedings



Source: Cerved Group. *among joint-stock companies, excluding those that did not submit any valid financial statements in the three years prior to winding-up

The strange case of voluntary liquidations

The historical data series of liquidations of companies in good standing (that is, companies for which there were no insolvency proceedings the year prior to liquidation) displays an increasing trend over the last decade. Looking at the period from January to September of each year, the total has gone from 12k in 2001 to over 20k in 2012. This increase in voluntary liquidations remains intact even after excluding unofficially dormant companies (companies that did not submit a set of valid financial statements for any of the three years prior to liquidation), and even after excluding micro-businesses (those that reported less than €2 million of assets on their balance sheets). 2012 has seen an especially marked increase in voluntary liquidations: 8.9% including all joint-stock companies, 10.1% excluding dormant companies and a remarkable 27% rise among companies that reported at least €2 million of assets on their balance sheets.

The data indicates, therefore, that a growing number of businesses, especially those that are solidly structured, are leaving the market of their own accord. Are these companies that, although not insolvent, were suffering badly from the consequences of the economic crisis from a financial point of view and perhaps decided to wind up business and pay off their creditors in order to avoid an otherwise inevitable state of insolvency? Cerved Group's insolvency risk indicator, calculated based on companies' financial statement data, can help answer that question. The data show that recent voluntary liquidations are not limited to companies considered at risk from a financial perspective: over the past decade, about 30% of all Italian companies liquidated had balance sheets that can be considered solid. Specifically, in the last nine months, more than five thousand companies that were financially sound (according to Cerved Group's point system) were liquidated, a 7% year-on-year increase. About 1,700 companies that reported at least €2 million worth of assets on their balance sheets opted for voluntary liquidation in the first nine months of 2012, and of those, 285 (+17% from 2011) had balance sheets that were not considered at risk of insolvency.

This demonstrates that the recession has produced not only a sharp increase in the number of defaults, but also an abrupt increase in the number of healthy companies – characterised by solid fundamentals but, in all likelihood, a pessimistic profitability outlook – that have decided to close. Given the extent of this phenomenon, gaining an understanding of the rationale behind these closures (was the business moved to another country, or was it discontinued?) becomes critical toward stimulating an inversion of the ongoing trends.

Voluntary liquidations of companies in good standing with positive assets

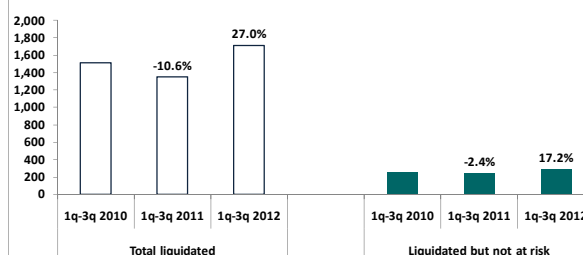
Number of liquidations and year-on-year growth rates, among joint-stock companies that reported positive assets on the balance sheet in the year prior to liquidation



Source: Cerved Group. 2012 figures are estimates. Risk of insolvency is calculated using a statistical method to measure the proximity of companies' balance sheets to healthy companies or financially troubled companies, in the year prior to voluntary liquidation.

Voluntary liquidations of companies in good standing with assets > 2€ mn

Number of liquidations and year-on-year growth rates, among joint-stock companies that reported assets > 2 mn on the balance sheet in the year prior to liquidation



Source: Cerved Group. 2012 figures are estimates. Risk of insolvency is calculated using a statistical method to measure the proximity of companies' balance sheets to healthy companies or financially troubled companies, in the year prior to voluntary liquidation.