Cerved Group

September 2013

Monitor of Bankruptcies, Insolvency Proceedings and Business Closures

Second Quarter 2013

Bankruptcy Records Broken Again

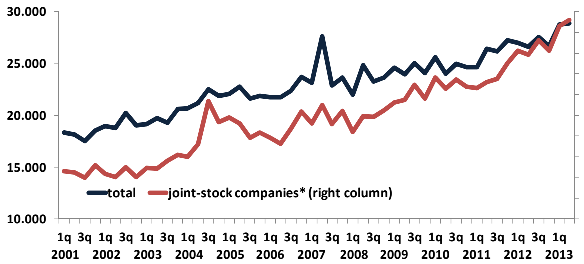
Boom in arrangements with creditors as well, driven by the introduction of the new "reserved" format

Summary

The recession continues to claim businesses among its victims. In the second quarter of 2013, 22 thousand companies opened insolvency or voluntary liquidation proceedings, a 9.9% year-on-year increase, bringing the total number of business closures for the first half of the year up to 45 thousand, or 9.3% more than in the already high level seen in the first half of 2012.

Insolvency proceedings and liquidations

figures season-adjusted and corrected for the number of working days



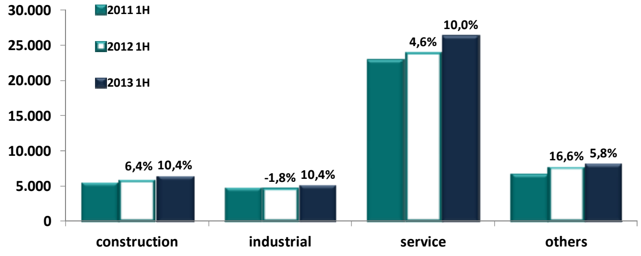
Source: Cerved Group estimates. *excludes companies that did not submit any valid financial statements in the three years prior to winding-up

The crisis did not spare any sector of the economy in the first half of 2013: business closures rose at a double-digit rate throughout the Italian economy. The construction sector is still where this phenomenon is most prevalent, with an exit ratio (defined as the number of joint-stock companies, excluding dormant ones, divided by the total number of joint-stock companies with positive equity) of 3%, compared to 2.8% in the industrial sector and 2.6% in the service sector.

Even from a geographical point of view, the increase in insolvencies and voluntary liquidations was pervasive: in the first half of 2013, the number of businesses that folded increased in every region of the Boot except Valle d'Aosta. Insolvency proceedings and voluntary liquidations rose at an 11% pace in northern Italy, while the growth rate was 8.4% in southern Italy and the islands, and 6.7% in central Italy.

Insolvency proceedings plus liquidations in the first half of the year, by macro-sector

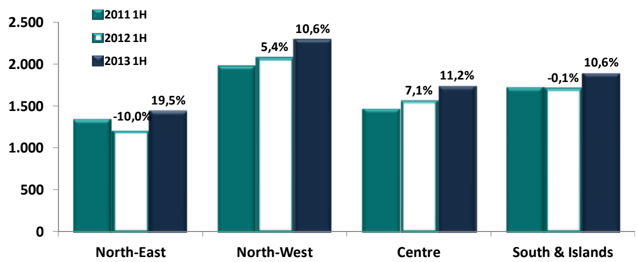
number of proceedings and year-on-year percent changes



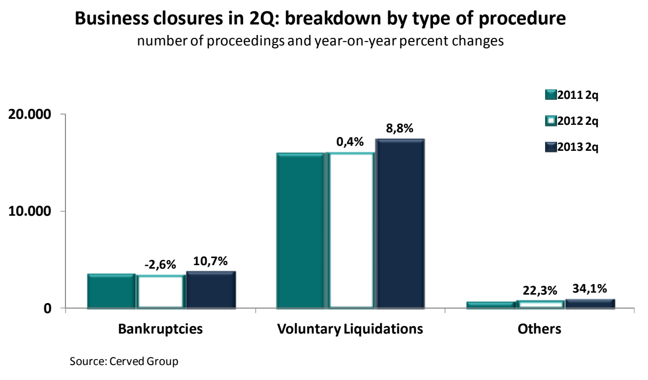
Source: Cerved Group

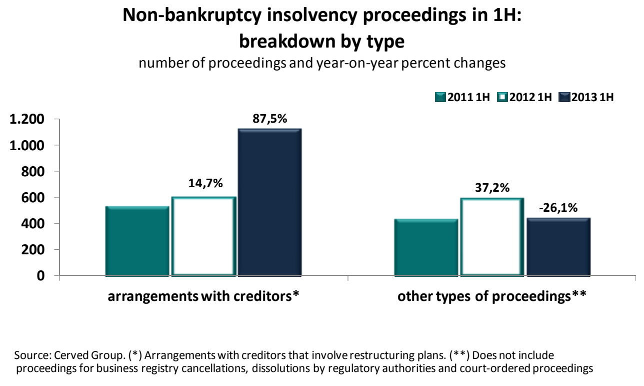
Bankruptcies in 1H: breakdown by geographical area

number of proceedings and year-on-year percent changes



Source: Cerved Group (*)





Between April and June, there was an increase in the number of all types of business closure proceedings monitored, although the dynamics varied. Bankruptcies reached a new record high of over 3,600 in the second quarter (+10.7% year-on-year and the most in over a decade), while the total number of insolvency proceedings broke the 7,000 mark (also a record in the past decade), rising by 12.3% from 2012. The tendency among entrepreneurs to close their businesses of their own accord also gained steam, as there were 17,000 voluntary liquidations between April and June (+8.8% YoY), taking the total for the firs half of the year to 36,000 (+8%). Among the different types of closures, the most sizeable increase was seen in non-bankruptcy insolvency proceedings, which rose by 34% in the second quarter and by 31% in the first half of 2013. The reason for this sharp increase can be traced back to the recently introduced "reserved" or "incomplete" voluntary arrangement with creditors. This format allows companies to present a voluntary arrangement application without having to draft a restructuring plan, thus blocking any executive action by creditors until the court-established deadline to submit a restructuring plan. There was a boom in such applications (1,200 in the second quarter and 2,500 in the first half), thus leading to an increase in the number of 'traditional' arrangements with creditors (those involving approval of a restructuring plan), which nearly doubled (+87% vs. 1H 2012).

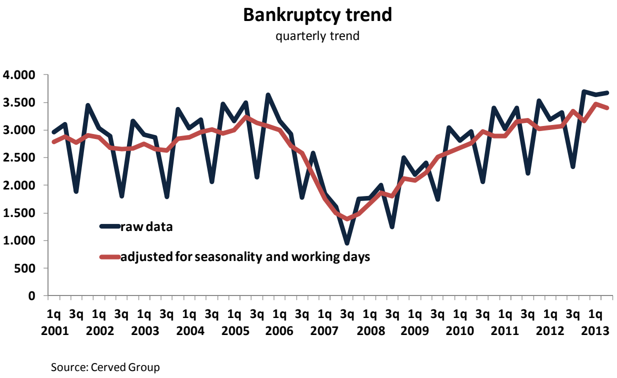
Bankruptcies

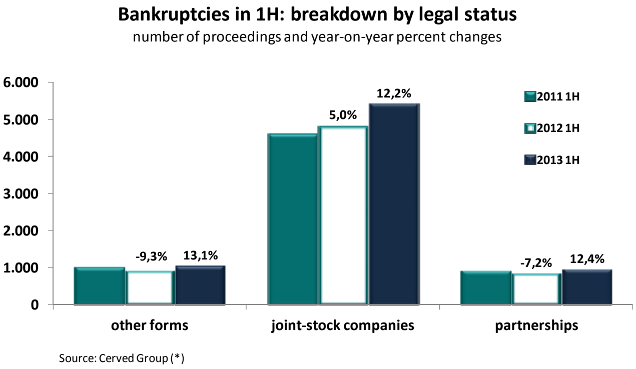
Between April and June 2013, over 3,600 bankruptcy procedures began; this is 10.7% more than the already high level recorded in the same period in 2012 and the most observed in over a decade in the second quarter of the year. This brought the number of bankruptcies declared in the first half of 2013 well over the 7,000 mark, a new record and 12.3% more than last year.

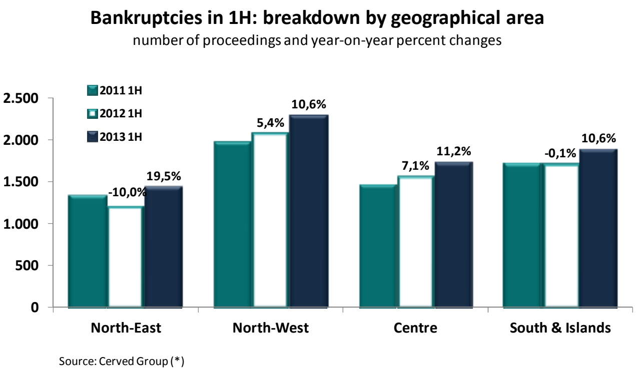
Unlike in previous years, when growing bankruptcy numbers were mostly limited to joint-stock companies, defaults in the first half of 2013 rose at double-digit rates among all legal forms of businesses: +12.2% among joint-stock companies, +12.4% among partnerships and +13.1% among other forms.

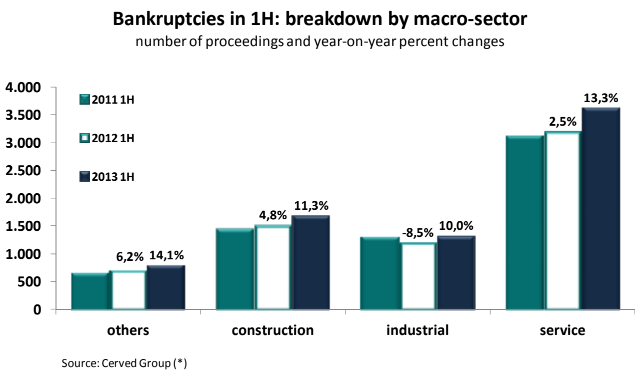
No geographical area of Italy was spared from the hastening bankruptcy trend: growth rates came to 19.5% in the North-East (where the bankruptcy rate had actually improved from the first half of 2011 to 2012), followed by 11.2% in central Italy, and 10.6% in both the North-West and the South.

Even going by macro-sector, the phenomenon rose at double-digit rates everywhere: +13.3% in services, +11.3% in construction and +10% in manufacturing (for this last sector, the increase represents an inversion from the improvement recorded last year).







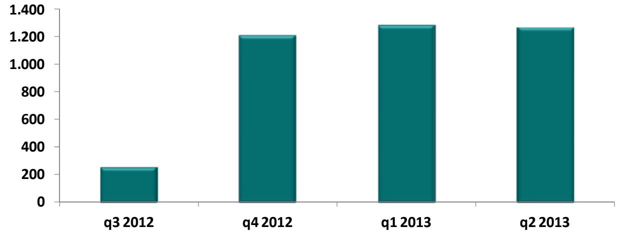


Non-bankruptcy insolvency proceedings

From April to June 2013, requests for "reserved" or "incomplete" arrangements with creditors continued to boom: according to Cerved Group estimates, over 1,200 such applications were submitted in the second quarter, taking the total number of "reserved" arrangements in the first half of the year up to 2,500.

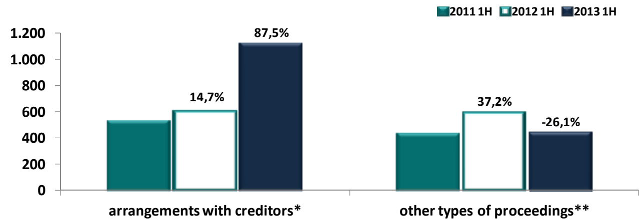
Italian companies' ample use of the new reserved arrangement format also caused a spike in the number of "traditional" arrangements with creditors (those that involve approval of a restructuring plan)[1]: there were over a thousand of them in the first half of this year, an 87.5% increase from the first half of 2012. Overall, adding in other non-bankruptcy proceedings[2] (which fell by 26%), over 1,500 non-bankruptcy insolvency proceedings began in the first six months of this year, a 31.1% year-on-year increase.

"Reserved" arrangements with creditors
number of applications submitted by quarter



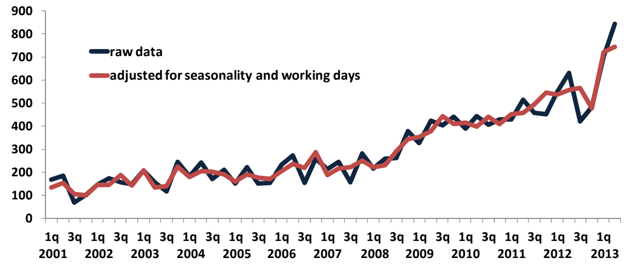
Source: Cerved Group estimates.
N.B.: the "reserved" arrangement format was introduced in September 2012.

Non-bankruptcy insolvency proceedings in 1H: breakdown by type
number of proceedings and year-on-year percent changes



Source: Cerved Group. (*) Arrangements with creditors that involve restructuring plans. (**) Does not include proceedings for business registry cancellations, dissolutions by regulatory authorities and court-ordered proceedings

Trend in non-bankruptcy insolvency proceedings
quarterly data



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

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[1] "Reserved" arrangement requests are applications by which a company can legally prevent its creditors from taking executive action to recover credits, giving it time to prepare a restructuring plan, which must be submitted by a deadline set by a judge. If that plan is accepted by the company's creditors and verified by the court, then an official voluntary arrangement is signed; if it is not approved, bankruptcy may be declared. In this Monitor, the total non-bankruptcy proceedings numbers reported do *not* include reserved arrangements, but do include the traditional arrangements.

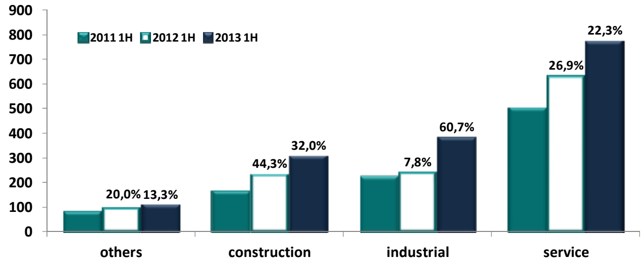
[2] Excludes business registry cancellations, dissolutions by regulatory authorities and court-ordered proceedings.

Non-bankruptcy proceedings numbers were on a double-digit rise in all sectors of the economy, being particularly high in the industrual sector (+60.7%), where the growth rate was double that seen in construction (+32%) and nearly triple the rate observed in the tertiary sector (+22%).

From a geographical point of view, the trend was an explosive +64% in the North-East and there was an increase of over a quarter in the North-West (+25.7%) and in the South (+27.5%), while it was more moderate in central Italy (+15.8%).

Non-bankruptcy proceedings in 1H: breakdown by macro-sector

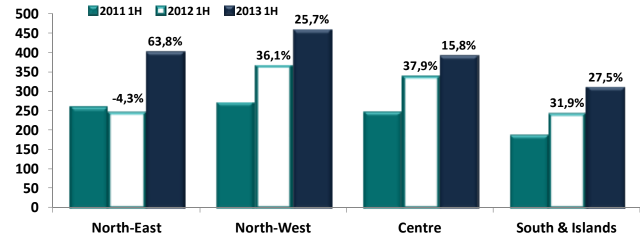
number of proceedings and year-on-year percent changes



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

Non-bankruptcy proceedings in 1H: breakdown by geographical area

number of proceedings and year-on-year percent changes



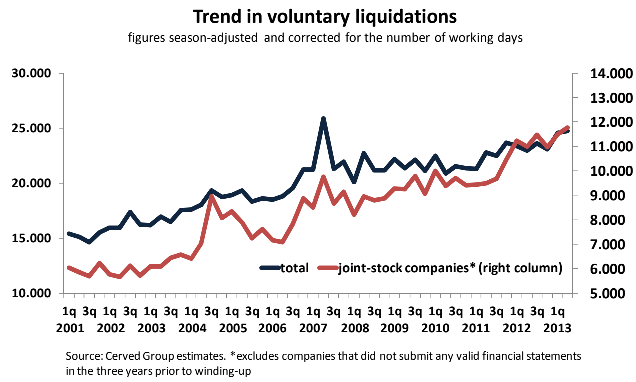
Source: Cerved Group. Excludes proceedings for business registry cancellations, dissolutions by regulatory authorities and court-ordered proceedings

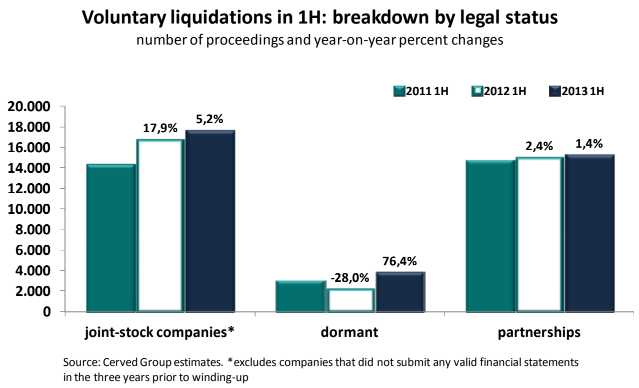
Voluntary liquidations

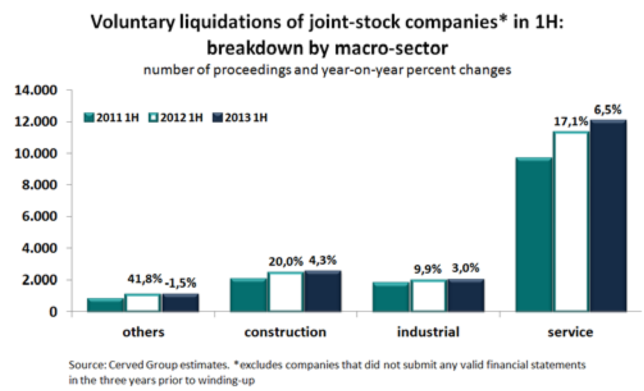
It is estimated[3] that between April and June, about 17,000 companies in good standing (i.e., that had not previously begun insolvency proceedings) decided to go into liquidation. This figure marks an 8.8% increase from the second quarter of 2012. The total number of voluntary liquidations in the first half of 2013 thus came to 36,000, about 8% more than in the same period of 2012.

There was a very robust increase (+76%) in the number of liquidations of dormant companies, defined here as joint-stock companies that did not submit any official financial statements in the last three years. Looking at 'real' companies only, the number of liquidations rose by 5.2% among joint-stock companies (a much slower growth rate than last year) and rose by 1.4% among partnerships.

Again considering only the 'real' companies, those that have submitted at least one valid set of financial statements in the last three years, voluntary liquidations grew faster in the service sector (+6.5%) than in both the construction (+4.3%) and industrial sectors (+3%). In all sectors, voluntary liquidation numbers







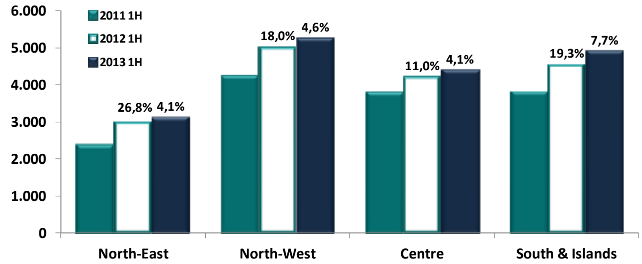
[3] Due to delays in Chamber of Commerce database updates, liquidation figures are estimated for the most recent quarter and then corrected and updated to show the actual number in the subsequent Monitor report. The actual first quarter 2013 number of about 19,000 matches the estimate provided in the previous edition of this Monitor.

increased, but at slower rates than in the first half of 2012.

From a geographical perspective, voluntary liquidations grew fastest in southern Italy (+7.7%), while the rates of growth ranged between 4% and 5% in the rest of the country.

Voluntary liquidations of joint-stock companies* in 1H: breakdown by geographical area

number of proceedings and year-on-year percent changes



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