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## Keys For Italy's Corporate Rebound

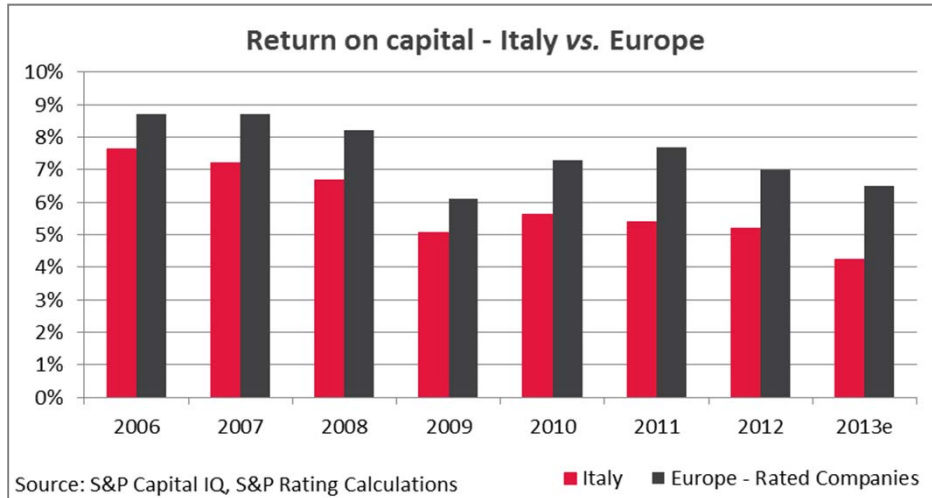
**Renato Panichi**  
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**Rome, June 16, 2014**

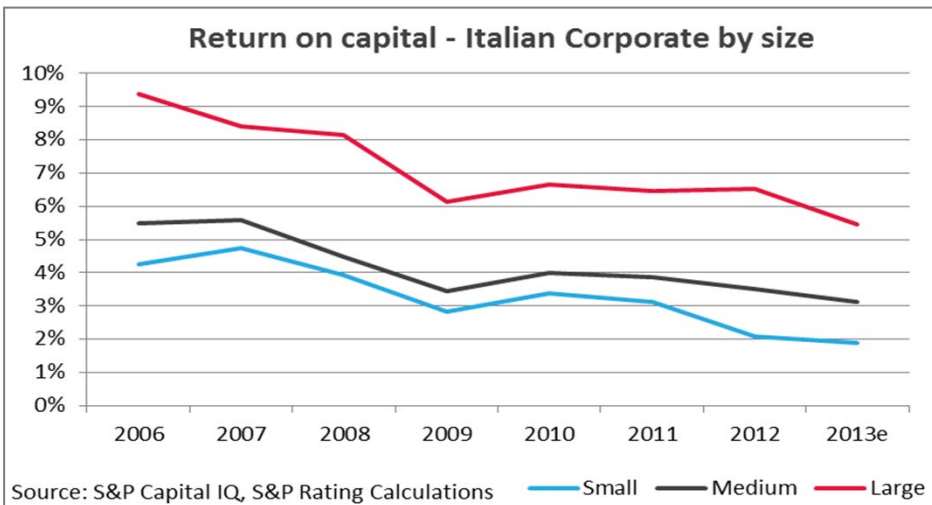
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# Profit Margins Declined Over 2006-2013 And Bottomed In 2013



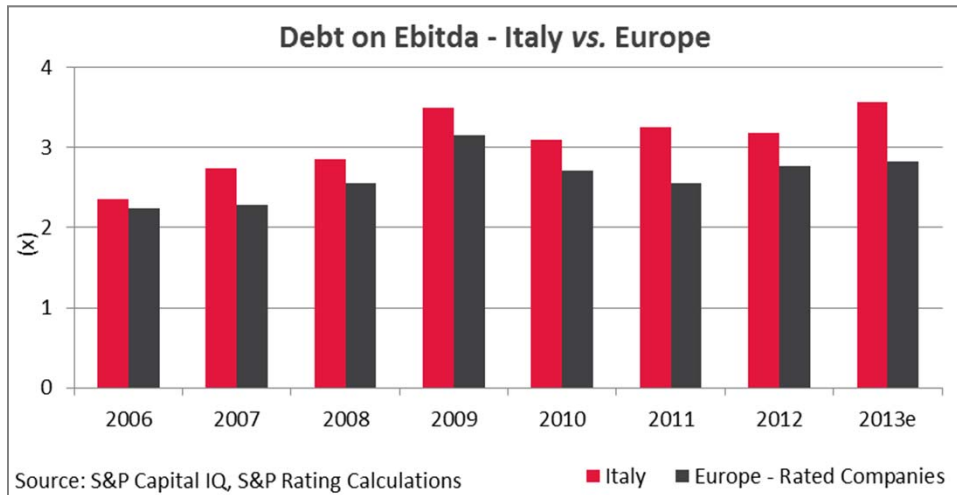
Company profit margins declined more in the 2012-2013 recession than in the 2008-2009 recession



Large companies suffered higher margin declines compared with SMEs, but SME absolute margins are well below those of large corporations

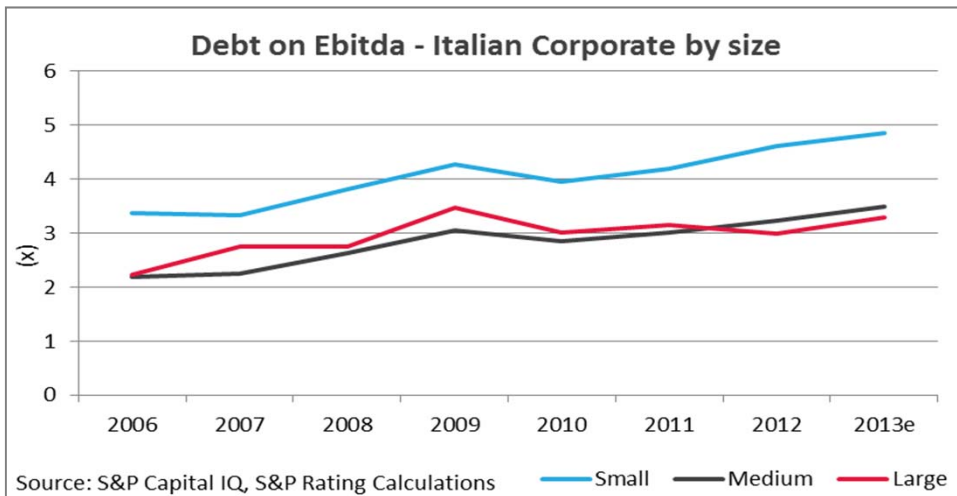
Export-oriented businesses more affected during the 2008-2009 recession, but well recovered thereafter

# Financial Leverage Worsened During The Period And Peaked In 2013



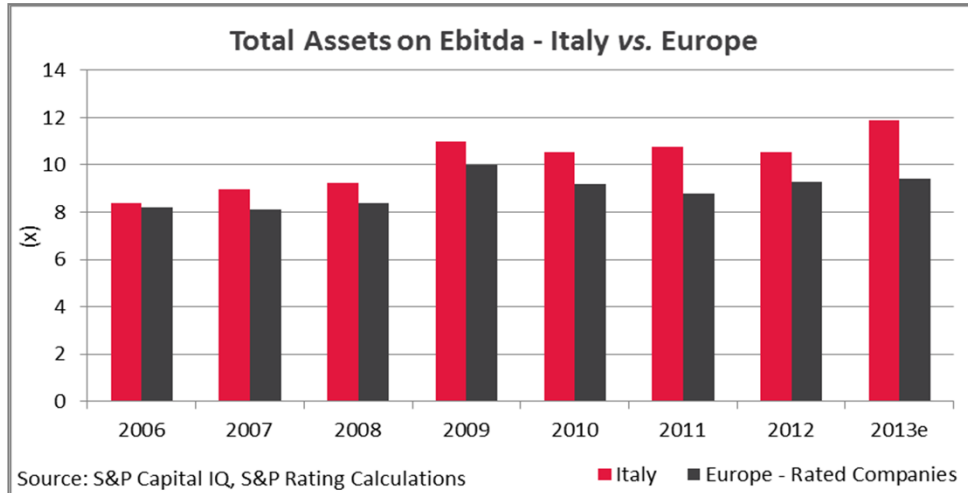
Italian Companies financial leverage worsened more than that of rated European peers, and peaked in 2013

Financial leverage is higher at small companies than on mid-sized and large corporates, but worsening during the period has been broadly similar

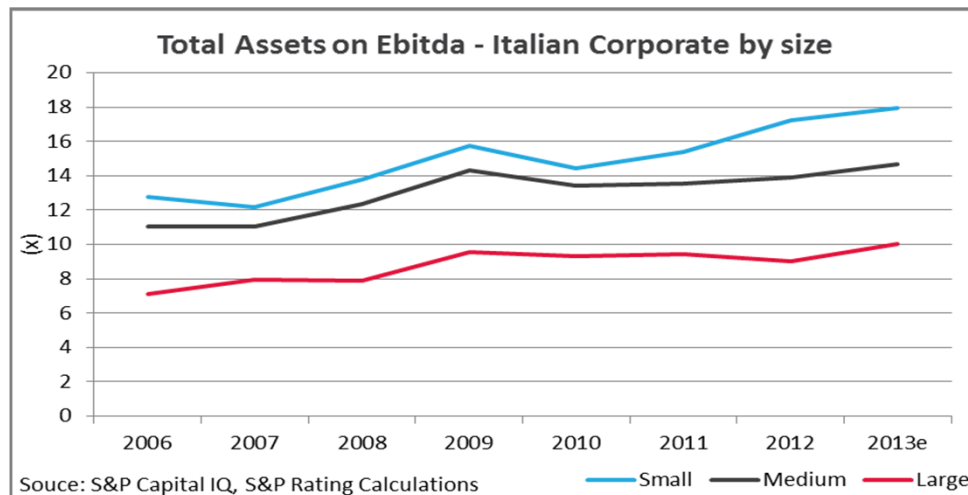


Steel, construction materials, and transportation display the strongest deterioration in financial leverage

# Total Assets To EBITDA Developed Rather Negatively



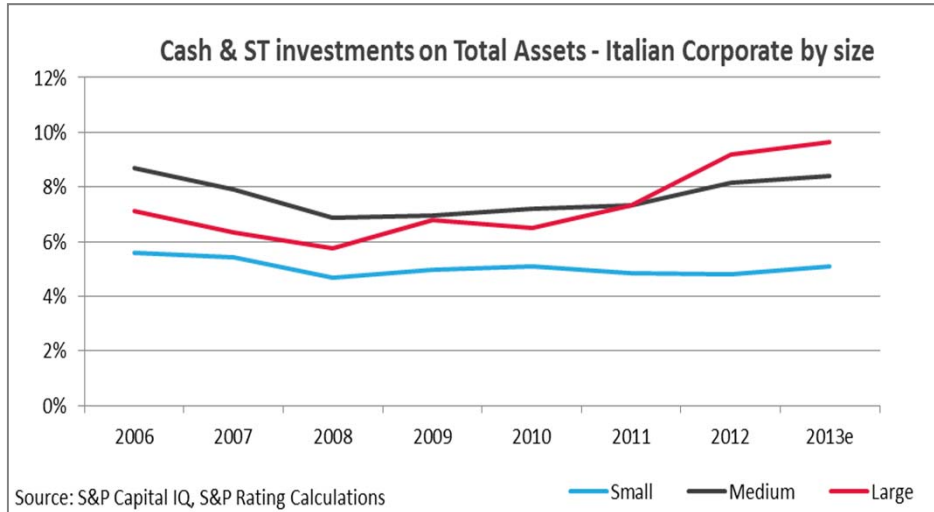
Total assets to EBITDA have increased, signaling a likely excess of invested capital relative to current demand



The ratio deterioration has well exceeded the average for European rated corporates

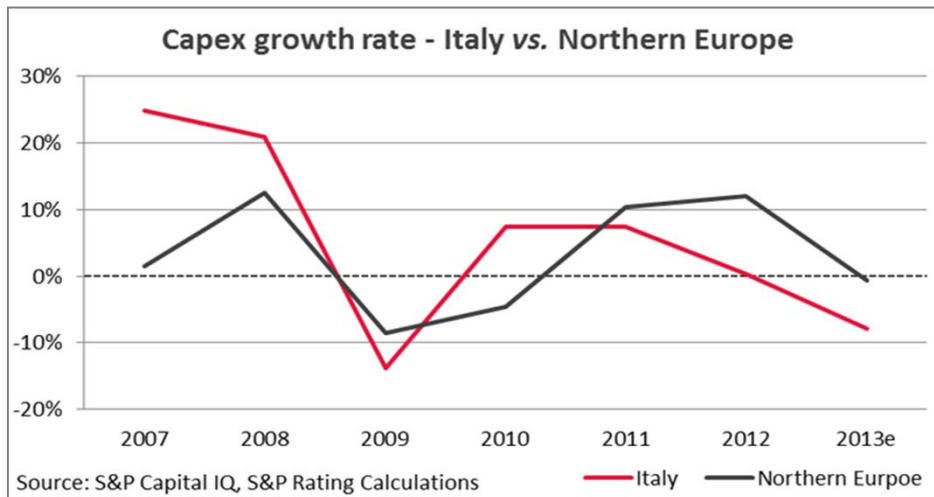
Total assets to EBITDA ratio is higher for SMEs compared to large corporates

# Cash Accumulation And Negative CAPEX Growth In 2012-2013



Large and mid-sized companies adopt comparatively more defensive financial policies than small ones

This cash build-up appears precautionary in nature given poor operational trends and the uncertain and volatile funding environment



Weak growth perspective, high unemployment and low confidence impacted Italian companies' investment decisions

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# Main Themes Likely To Affect Italian Companies

Need to **restructure** the asset base and **consolidate**, particularly with reference to **small and midsize** companies

Relatively **high cash balances** provides support from a **liquidity point of view** to large and midsize companies

Addressing relatively **high debt levels** remains a priority for several capital intensive industries

Still weak operating cash flows, impaired by **high tax burden** and **interest expenses**, limit discretionary corporate expenditure

Resilient earnings from **overseas markets** should still support export-oriented industries

A rather **contained recovery for cyclical industries**, driven by moderate improvement in business and consumer demand

# Source of Italian Companies Competitiveness Disadvantage

Low labor factor productivity

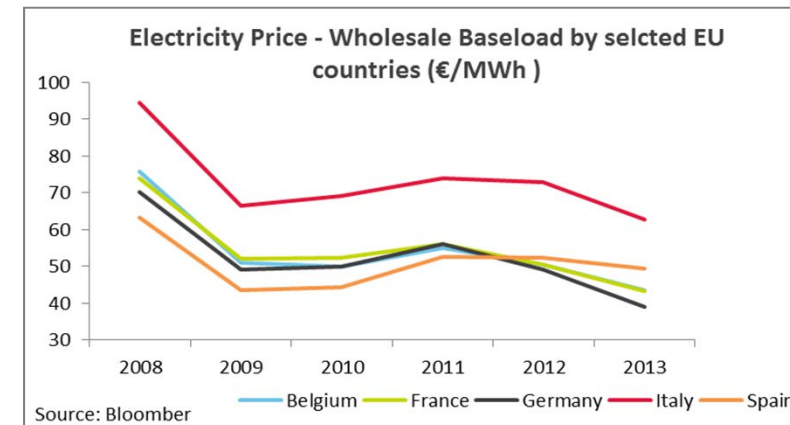
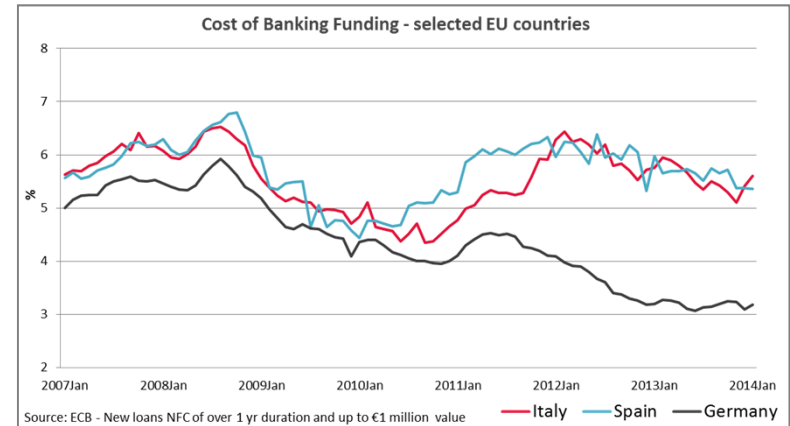
A cost of debt higher than European peers

A tax framework generally unfavorable to run businesses

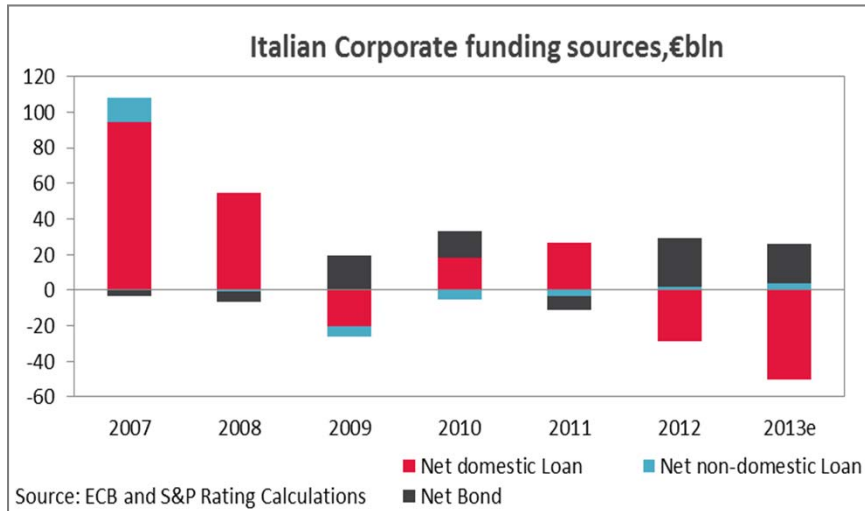
Comparatively higher working capital needs

Limited size of businesses

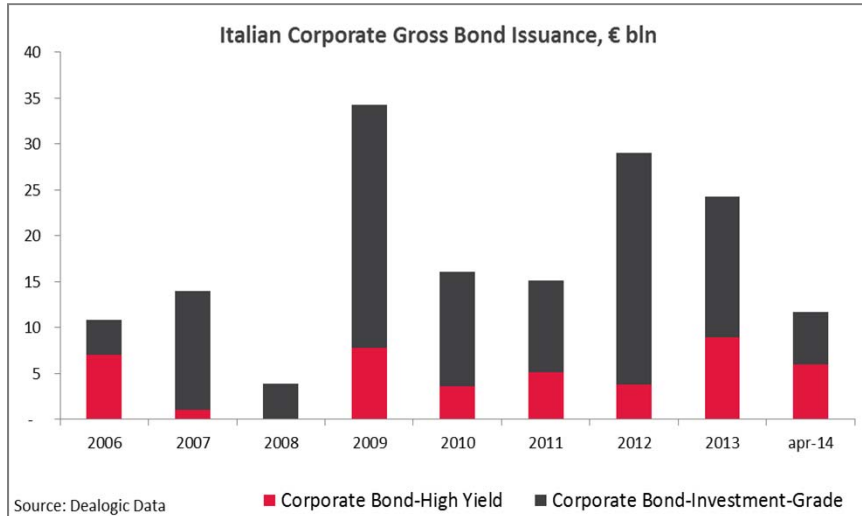
Comparatively higher cost of energy



# Corporate Funding: Companies Gradually Embrace Markets



Corporate debt started to decline in 2012, and this trend gathered pace in 2013

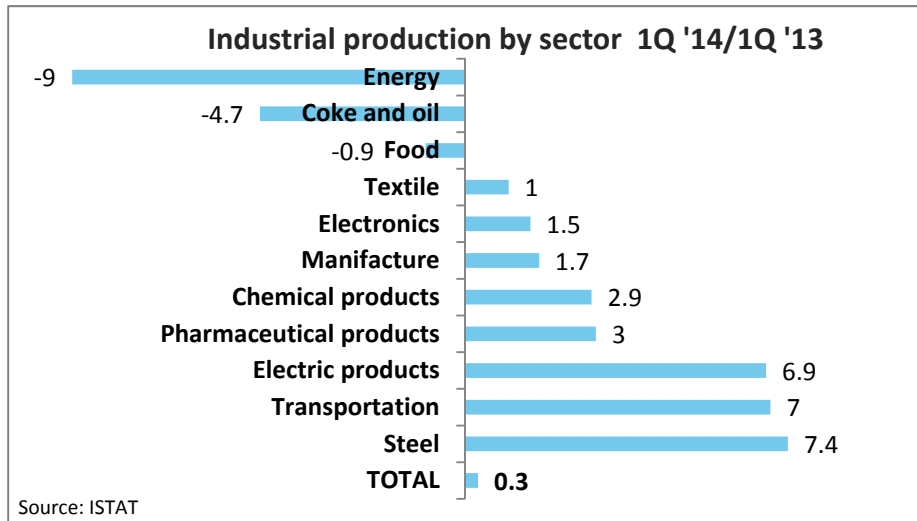


Foreign credit to Italian corporations has been relatively stable over the past few years

Non-investment grade corporate bond issuance hit a record in 2013, in terms of both the number of issuances and their volume



# Mixed Conclusions



**We expect the economy will gradual recover, but it will take time for Italian companies to reach same volume of manufacturing as before crisis**

**The domestic corporate landscape appears substantially damaged after a prolonged recession**

**We believe Italian companies have some keys to help rebound their performance**





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