Keys For Italy’s Corporate Rebound

Renato Panichi
Director Corporate Ratings EMEA

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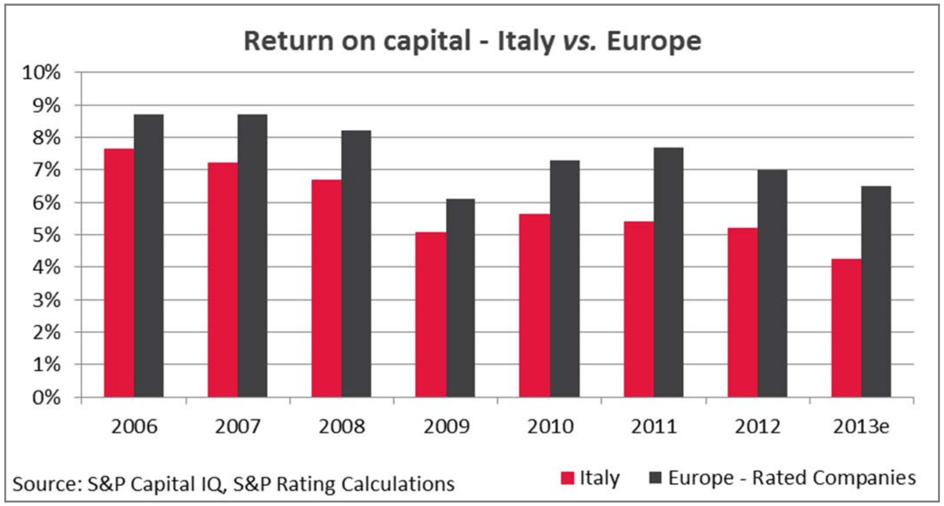
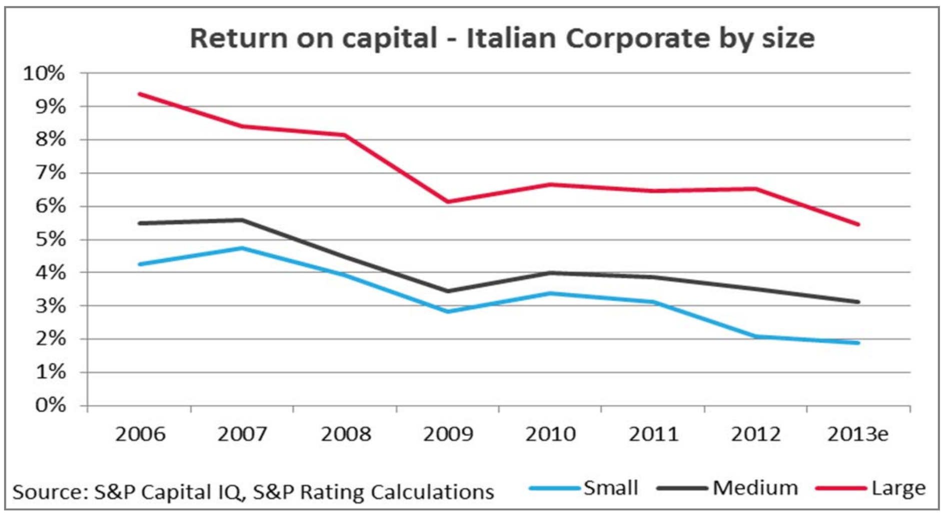
Profit Margins Declined Over 2006-2013 And Bottomed In 2013



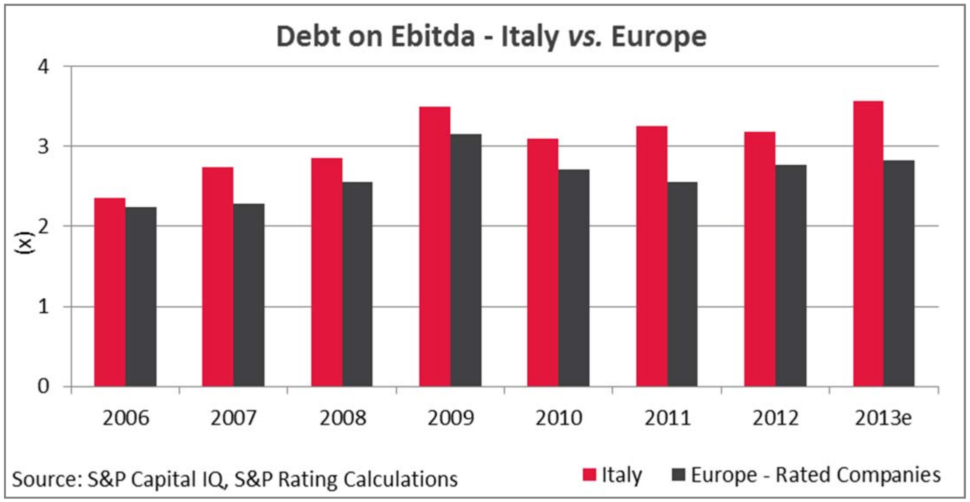


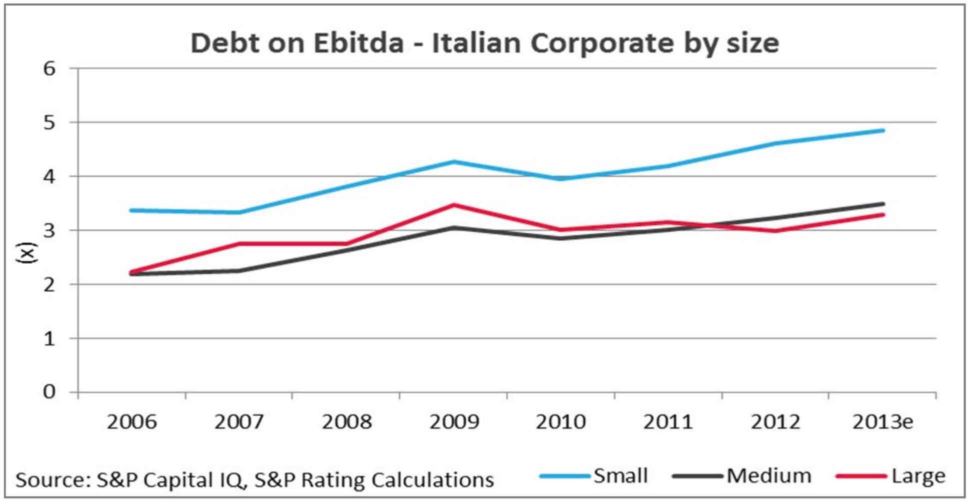
Company profit margins declined more in the 2012-2013 recession than in the 2008-2009 recession

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



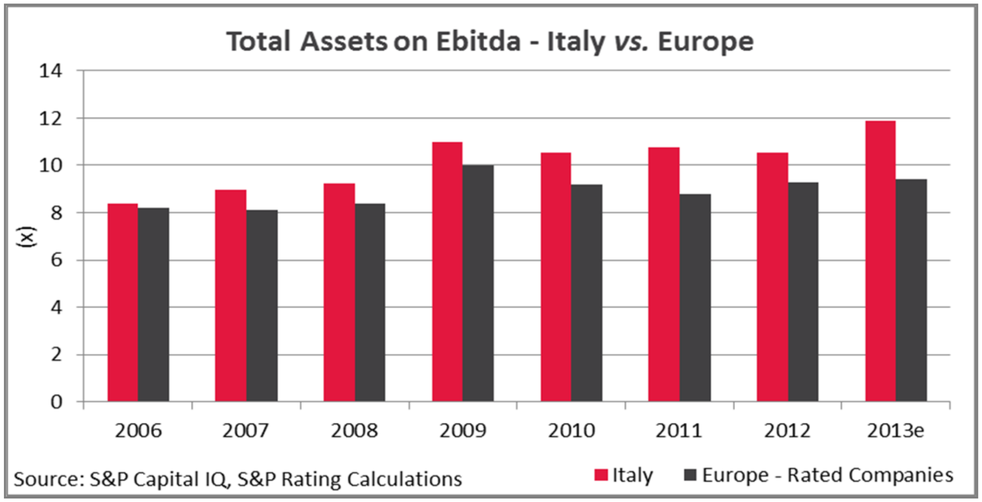


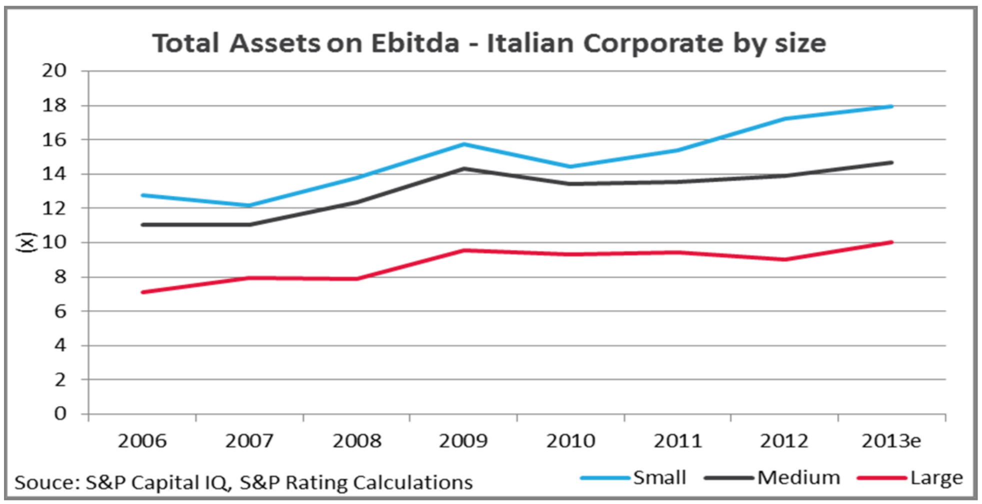
Italian Companies financial leverage worsened more than that of rated European peers, and peaked in 2013

Financial leverage is higher at small companies than on midsized 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

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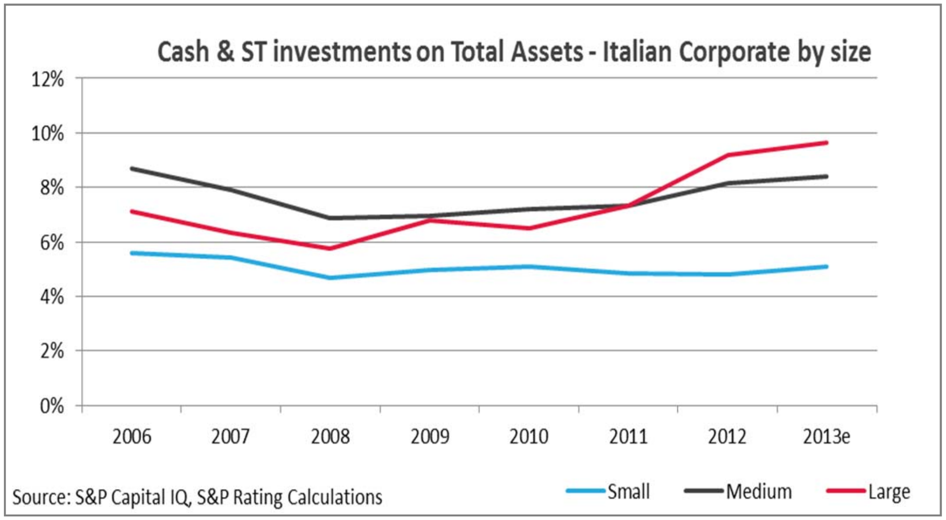
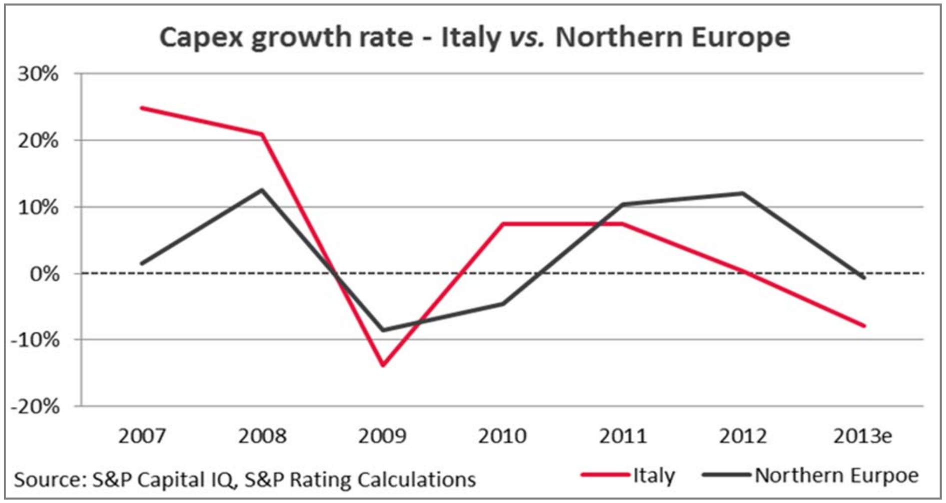
Cash Accumulation And Negative CAPEX Growth In 2012-2013





Large and midsized 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

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

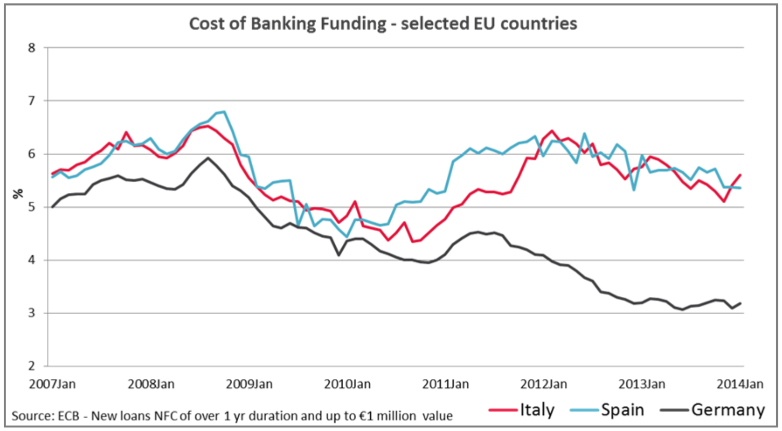
Resilient earnings from **overseas markets** should still support export-oriented industries

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

Source of Italian Companies Competitiveness Disadvantage

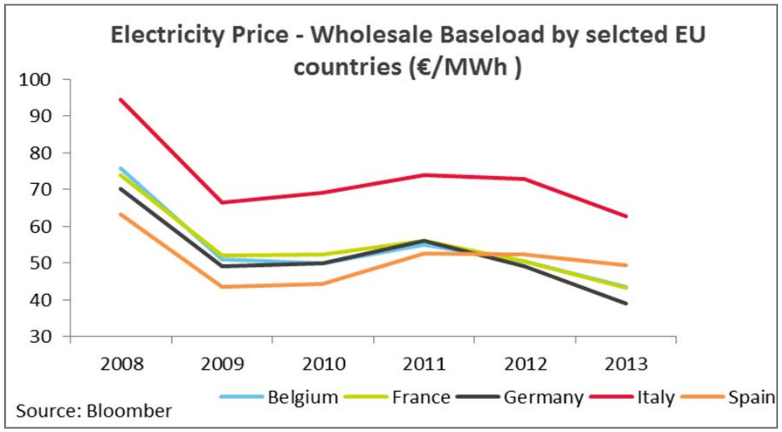
Low labor factor productivity

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

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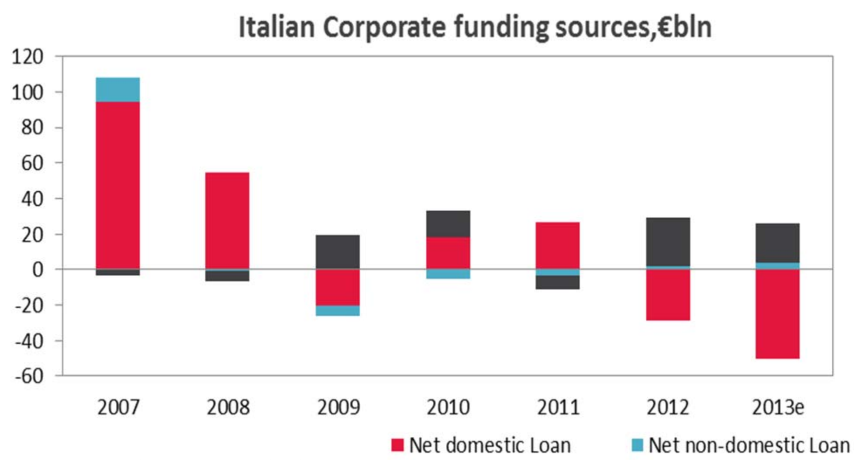
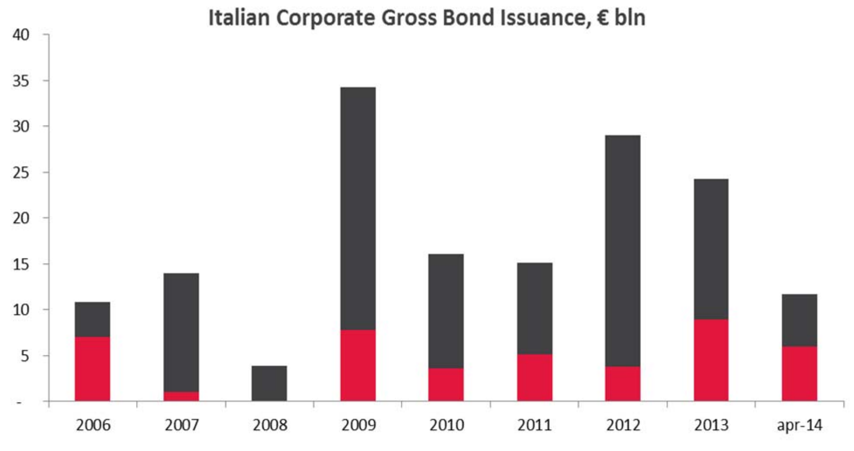
Corporate Funding: Companies Gradually Embrace Markets



Source: ECB and S&P Rating Calculations



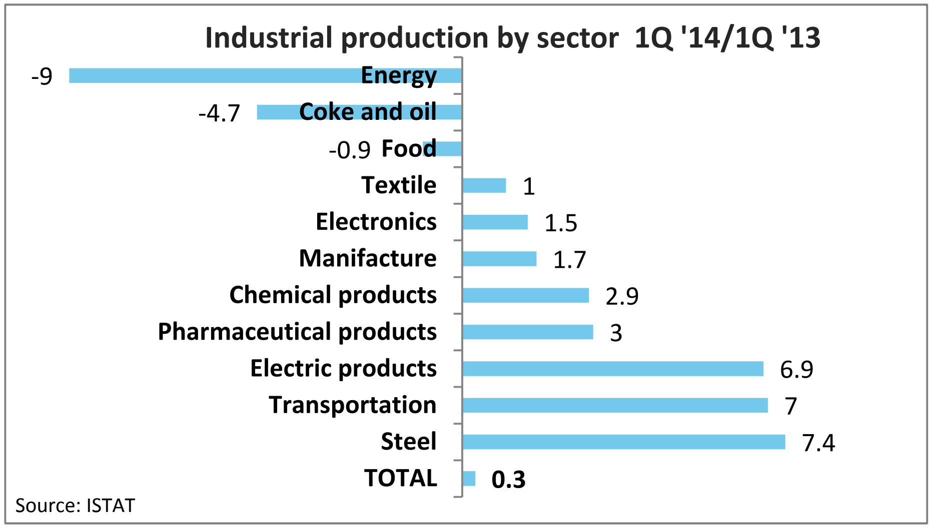
Source: Dealogic Data

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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