

Press release

Euler Hermes: Insolvencies on the rise across the entire French business landscape

- In the absence of investment, consumption and export growth drivers, [Euler Hermes](#) revised its French GDP growth forecast downward for 2013 (-0.3%) and in 2014 (+0.4%)
- Insolvencies remain at a very high level (61,250 cases over 12 months to May 31, 2013), nearly equal to the 2009 high. Recently, large companies have been affected to an accelerating extent (+15.7% during the first five months of 2013¹ for companies with sales of more than €15 million).
- Among the difficulties faced by companies is a surge in so-called safeguard procedures, which rose by 13.9% in the first five months of 2013¹, and a growing number of court-ordered liquidations. 70% of all companies in court-ordered restructurings are eventually liquidated.

PARIS – 1 JULY 2013 – Euler Hermes today released its latest report on French business growth and insolvencies.

I. Following the decline in consumption and investment, exports – the final growth driver – are also losing steam.

“Given the widespread contraction in the main components of economic growth, we’ve revised [growth forecasts](#) downward to -0.3% for the full year 2013,” explained Ludovic Subran, chief economist at Euler Hermes. “A return to modest 0.4% growth will occur only in 2014, due to an increase in exports, followed more gradually by increased consumption.”

Low household confidence levels weighing on personal consumption. The increase in unemployment (expected to reach 11% in 2014) combined with declining household purchasing power will weigh on personal consumption. That is expected to decrease by 0.2% in 2013 before rebounding slightly (+0.2%) in 2014, supported by a continued high level of savings.

Company investment remains sluggish. The tax burden on companies has increased steadily since 2010, and uncertainty surrounding new measures should continue to weigh on company investment outlooks (-2.3% in 2013 and -0.1% in 2014). In fact, business confidence levels have been depressed for more than one year, and company profit margins have remained at their lowest levels since 1988. Finally, the impact of the reduction in social contributions in 2014 as a result of the tax credit for competitiveness and employment (*Crédit d’Impôt pour la Compétitivité et l’Emploi - CICE*) appears to be limited, given the lack of a policy supporting promising sectors that are exposed to international competition.

Exports showing signs of weakening. Given anemic demand in neighboring countries, demand for exports will be very limited in 2013 and are expected to decline by 0.5%. However, the more pronounced recovery forecast for Germany, as well as a slowdown in the rate of economic contraction in the peripheral countries in 2014, should enable exports to rebound significantly in 2014 (+1.3%).

II. The surge in insolvencies is spread across the entire economic landscape, especially high for large companies.

In France, company insolvencies continued to rise during the first five months of 2013, with more than 26,600 since the beginning of the year (+0.8%), and more than 61,250 over 12 months (+3.8%). These figures are near the records set 1993, 1996 and 2009, supporting an outlook for increased defaults during the full year 2013 (+2% to approximately 62,000), before, at best, a slight decline in 2014 (-1% to 61,800).

¹ Year-on-year

While the insolvency trend is on the rise for companies of all sizes, large companies are experiencing a particularly sharp increase.

“During the first five months of 2013, companies with more than €15 million in sales recorded a 15.7% increase in insolvencies and those with more than 200 employees recorded a 33.3% increase²,” noted [Nicolas Delzant](#), chairman of the Executive Board of Euler Hermes France. “With a domino effect threatening the supply chain, it is even more imperative to manage company payment default risks.”

Since the beginning of the year, aggregate sales for the 15 largest French insolvencies totaled €2.7 billion:

COMPANY	REORGANIZATION//LIQUIDATION/SAFEGU ARD	SALES (€ THOUSANDS)
KEM ONE	MAR 13	700,000
GAD SAS	FEB. 13	459,223
VIRGIN STORES	JAN. 13	304,947
GROUPE CONTINENTALE NUTRITION	MAY 2013	270,201
HUIS CLOS	MAY 2013	146,473
GROUPE AXSOL TWINTEC	JAN.-13	100,000
GOSS INTERNATIONAL FRANCE	APR. 13	96,927
MULTITEC	MAR 13	86,886
DISTRIBUTION PAYS DE L'OUEST	JAN. 2013	79,103
SPANGHERO SAS	FEB. 13	78,922
BIJOUX GL	FEB. 13	75,115
OXXO	FEB. 13	72,196
YVANBEAL	MAY 2013	59,610
PHONE AND PHONE	MAY 2013	54,032
MANUFACTURE DE PRODUITS D'HYGIENE	JAN. 13	51,851,
TOP 15		2,635,496

More than 75% of French regions experienced increased insolvencies over the 12 months to May 31, 2013. With upward trends in 17 French regions, the pace was strongest and most increased since April in the Champagne-Ardenne (+14.4%), the Loire (+14.7%) and Auvergne (+26%) regions. The decline in insolvencies slowed considerably in the other regions. Overall, by May 31, 2013, half of all regions had recorded an annual insolvency rate higher than that of 2009. (See the map of insolvencies below).

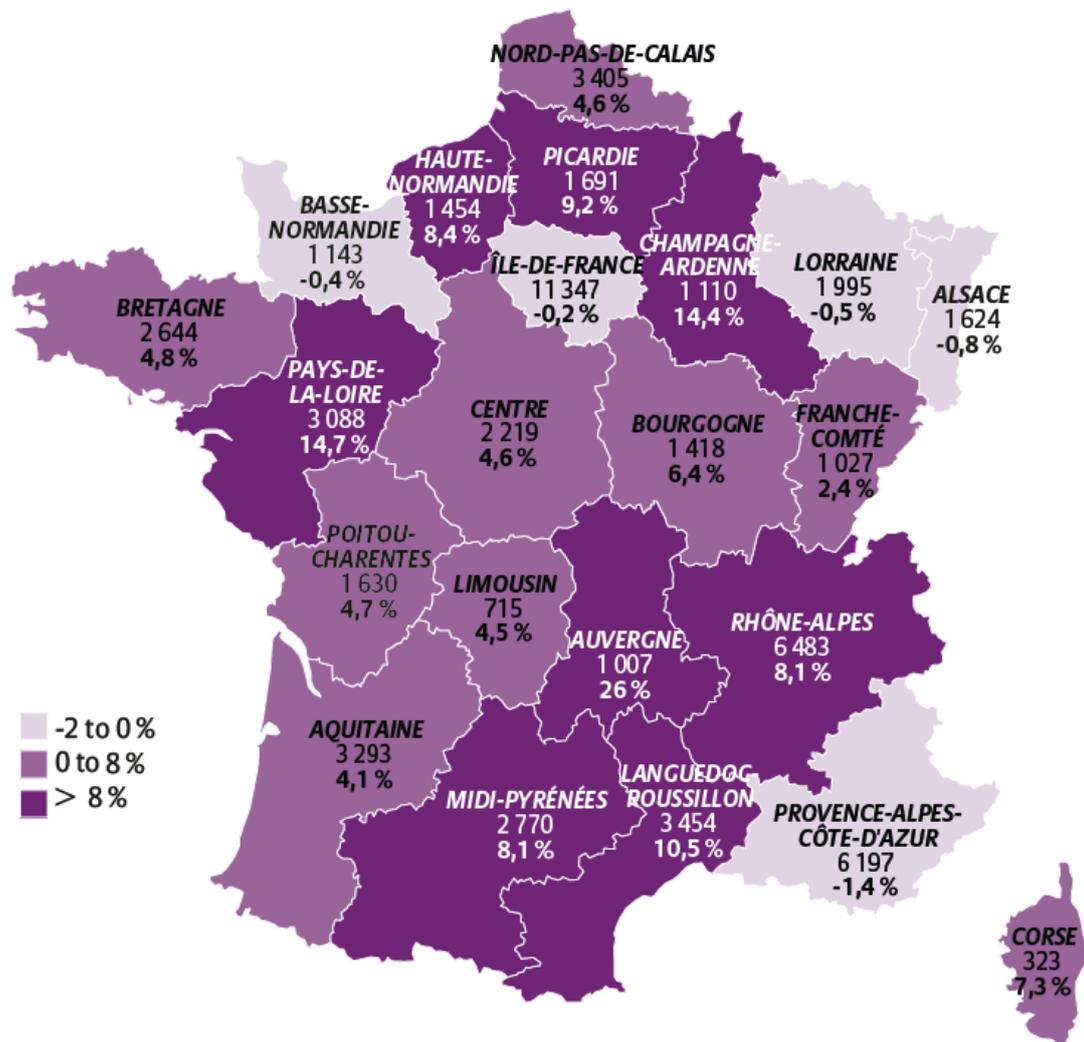
During the first five months of the year 11 French regions recorded increased insolvencies, with a strong upward trend in four: Midi-Pyrénées (+11.8%), Haute-Normandie (+11.9%), Auvergne (+16.2%) and the Loire (+23.3%).

The rise in business insolvencies is increasingly resulting in court-ordered liquidations and safeguard procedures. Preliminary rulings on insolvency proceedings confirm two trends created by the renewed difficulties facing companies. First, the uptick in court-ordered liquidations (+5.6% over 12 months to May 31), i.e. the number of companies who no longer appear able to achieve a favorable outcome through restructuring. Secondly, a growing use of the safeguard procedure. The number of cases recently exceeded the level recorded at the height of the 2009 insolvencies, even if a relatively limited number of distressed companies are affected (2.6% of all insolvency procedures). Court-ordered restructurings are down slightly (-1% over the past 12 months), but increasingly result in a liquidation order.

A review of the 2006-2010 period shows that more than 70% of all companies entering a court-ordered restructuring had to be liquidated within a relatively short time period. Similarly, companies undergoing safeguard procedures were liquidated in 37% of the cases (direct liquidations in nearly one-quarter of the cases, and following court-ordered restructuring in 13% of the cases). In other words, the relative number of insolvency proceedings that ultimately result in court-ordered liquidations is higher today than pre-crisis.

² Year-on-year

Number of insolvencies per region and in % change (YTD at the end of may 2013, excluding French overseas territories)



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