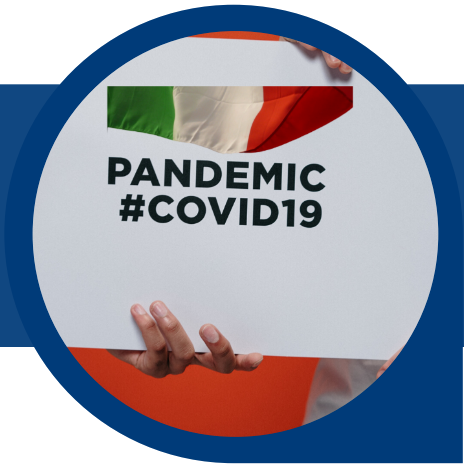
CRIF PULSE: THE IMPACTS OF COVID-19 AND SUBSEQUENT RECOVERY WILL DIFFER BETWEEN THE VARIOUS ITALIAN PRODUCTION SECTORS



Among the most resilient sectors (Top) are the Pharmaceutical, TLC, ICT and Media, Chemical, and Consultancy sectors.

Among the most affected (Bottom) are the Tourism/Leisure, Motor Vehicle Trade, Mining/Oil & Gas, Civil Engineering, and Construction sectors.

The expected rebound in 2021 will allow a recovery in turnover and margins, but not enough to return to pre-crisis levels.

In order to investigate the economic and financial effects of the COVID-19 emergency on businesses, CRIF has developed the CRIF Pulse, enabling analysis of the business consequences and the foreseeable future trends in the various economic sectors of companies. This acts as a hermometer of both the crisis and the recovery, with timely and accurate indications regarding credit performance and trade.
Based on the proprietary classification of CRIF Ratings and the processing of CRIBIS data, analyzing all Italian companies in the different sectors at a macro level based on ATECO codes, IF Pulse assigns each sector a score from 1 (the worst) to 5 (the best), representing the ability to absorb the impacts of the COVID-19 emergency.

This summary indicator takes into account two components: (i) the expected economic and financial effects of COVID-19 on the accounts of companies in the sector (Financial Impact from 1 to 5) and (ii) two indexes relating to the sector's ability to recover and the speed of recovery, enabling the real-time identification of the phenomena taking place in the economy from a credit and trade point of view (Pulse Credit and Pulse Trade, also on a scale of 1 to 5). Based on these parameters, the economic sectors were divided into four categories: Top, Upper, Middle and Bottom.

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TOP SECTORS

The analysis shows that only a small number of sectors, the so-called Top sectors, show a substantial resistance to the effects of COVID-19, in terms of both Financial Impact (with a score from 4 to 5) and Pulse Credit and Pulse Trade (between 3 and 4). These sectors include the Pharmaceutical, Telecommunications, ICT and Media, Chemical, and Consultancy sectors. The number of companies falling into this category is rather limited both in numerical terms (about 15% of the total) and in terms of turnover (about 11%).

Common characteristics include a limited impact of lockdown restrictions on the performance of economic activities, given the essential nature of the activities or the ability to perform activities remotely, resilient or even growing demand owing to the nature of the products and services provided, maintenance of margins and cash generation by maintaining production volumes, relative stability of creditworthiness, and normal commercial operations. In particular, within the Top segment, there is an extremely limited use of credit payment holidays by pharmaceutical companies compared to the total number of Italian companies (around 4% in March 2020 and about 15% in April 2020).

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UPPER SECTORS

The next category comprises those classified as Upper sectors, characterized by a low impact of lockdown restrictions on essential production, a favorable long-term trend in demand, and a better capacity to absorb short-term negative impacts. In terms of credit, there are no particularly critical issues and commercial activities are normal. This category includes the Transport and Logistics, Food, Beverages and Tobacco, and Electronics sectors. For these sectors, the Financial Impact is between 3 and 4, while Pulse Credit and Pulse Trade are between 2 and 3.

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MIDDLE SECTORS

The Middle sectors, on the other hand, show a greater impact of lockdown restrictions, and several of these sectors also have a strong exposure to foreign demand. All of this leads to pressure on operating profitability and already relatively weak financial structures, a reduction in commercial operations and longer payment times to suppliers, and consequently to early-warning signs relating to creditworthiness. This category includes, among others, the Retail, Textile and Clothing, and Machinery sectors, with a Financial Impact of around 2, and Pulse Credit and Pulse Trade with values around 3.

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BOTTOM SECTORS

Finally, the fourth category includes the Bottom sectors, which are expected to be impacted significantly by COVID-19. They are sectors that have been considerably affected by lockdown restrictions, but are also suffering from weak demand in the recovery phase owing to the new normal of social distancing or the reduced propensity to invest and acquire durable goods, closely linked to the overall climate of consumer confidence in an extremely volatile and uncertain context. Typically in these sectors, the cost structure, with a strong fixed cost component, and the high percentage of working capital, affect the financial profile. Consequently, there is a deterioration in creditworthiness and a significant reduction in commercial operations, as well as a lengthening of payment times to suppliers. Among these, CRIF has identified the Tourism/Leisure, Motor Vehicle Trade, Mining/Oil & Gas, Construction and Civil Engineering, Mechanical/Transportation, and Metallic Products sectors. In contrast to the limited concentration of companies in the Top category, the Bottom category includes around 28% of Italian joint-stock companies, with an aggregate turnover of 24% of the total.

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In this category, the Financial Impact is between 1 and 2, and Pulse Credit and Pulse Trade are on average between 2 and 3. The difficulties in these sectors are also found in the trend in enterprise birth rate, with a negative variation that is higher than the same period of the previous year, in particular in the Tourism (-2.8 percentage points) and Motor Vehicle Trade (-2.2 percentage points) sectors. Likewise, Car Sales, Mining/Oil & Gas, and Tourism & Leisure recorded a contraction in invoices issued in the first three months of the year, which is close to -40% compared to the first quarter of 2019, in contrast to an Italian average of -12%.

“If, in addition to the difficulties that businesses will face in the coming months, there is also a need to cover financial debt maturing in 2020, significant financial requirements will emerge in many sectors. In order to deal with this, the measures launched by the Italian Government in terms of payment holidays for existing credit exposures and access to bank loans with the backing of government guarantees will play a significant role. For those sectors most affected financially, measures introduced by institutions will play a key role, both in terms of easing of immediate payment deadlines and supporting the recovery of demand in the medium term and increasing the speed of recovery,” commented Simone Mirani, General Manager Operations of CRIF Ratings.