S&P CAPITAL IQ

Press Release

Southern European private companies healthier than public peers, finds S&P Capital IQ

London, 23 October 2012: Privately-held businesses in debt crisis-stricken Portugal, Spain and Italy are in many respects in better financial health than their publically-listed peers, according to analysis from S&P Capital IQ, a leading provider of multi-asset class data, research and analytics.

While recent investor concerns over the ability of Portugal, Spain and Italy to service their sovereign debt have helped to depress local equity markets, S&P Capital IQ's analysis shows that – in the aggregate – private companies in those three countries enjoy better short-term liquidity profiles and revenue growth reports while maintaining lower leverage rates than their public counterparts.

"These findings highlight that, while many public companies in Southern Europe are in distress on account of what are perceived to be troubled markets and heightened country risk, their private counterparts may be in position to fare better over the coming months. This divergence may yet provide an opportunity for market participants, as long as they possess sufficient transparency into the fundamental balance-sheet items of all these private entities," says Silvina Aldeco-Martinez, Managing Director of S&P Capital IQ. "With access to such data, opportunities may exist for investors, lenders and acquirers".

Sizing up the fundamental differences

From January 2008 to September 2012, Spain's IBEX 35 contracted by 47.9%, Portugal's Psi-20 by 58.9% and Italy's FTSE MIB by 59.2%, according to S&P Capital IQ, indicating that publically-listed firms in Southern Europe's flagship indices have lost appeal for equity investors.

Yet private companies across all three countries tended to show a more efficient operating cycle with a better ability to turn products into cash, according to their current ratios – a measure of current assets against current liabilities. According to S&P Capital IQ's analysis, this measure appears particularly strong for the Portuguese private energy sector with an average current ratio of 2.03 and Spanish private industrials with 2.15 over the last year, versus 0.9 and 1.13 for publically-traded firms across those respective sectors.

The analysis also reveals that the latest annual growth figures are generally better for private companies. For instance, public Portuguese industrials reported revenue contraction of 4.8%, while private firms in the same category generally reported revenue growth.

Leverage rates also appear to be higher in public versus private firms. For example, private companies in Spain's materials sector have a liabilities to total assets ratio of 42.3%, while public businesses in the same sector have a liabilities to total assets ratio of 55.9%, indicating that the public companies have a higher dependency on debt to fund their operations.

That said, the analysis does reveal some negative signals for privately-held firms. For example, private Italian and Portuguese materials companies reported a worse average Days Sales Outstanding (DSO) figure compared to publically-traded firms in the same sectors.

"This could be a consequence of large public companies using their size to bring in receivables at a faster rate," says Pavle Sabic, Solutions Architect at S&P Capital IQ. "It highlights the need for greater transparency into private fundamentals in volatile markets, where positive and negative signals can be difficult to identify."

Private company fundamental data expansion

The data in this analysis is based on S&P Capital IQ's recent expansion of their private company fundamental datasets throughout Europe, including Italy, Portugal and Spain. The data – subject to rigorous quality checks – is made available to investors, risk managers and researchers via the firm's market-leading S&P Capital IQ desktop and Xpressfeed channels.

"The number of smaller M&A transactions and the globalization of business operations – from both suppliers' and client's perspectives – are two trends that point to greater appetite for the analysis of private companies," says Aldeco-Martinez at S&P Capital IQ. "This is why private company data additions will remain crucial for S&P Capital IQ's market positioning in the short- to medium-term."

Indeed, S&P Capital IQ clients across several market segments will be able to improve their in-house analysis of counterparties and targets with this data. This includes risk managers quantifying risk exposures, or private equity analysts and corporate finance teams at investment banks conducting research into prospective investments and M&A targets.

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