

# Non-Performing Loans? Respond to thrive post-moratorium

October 23<sup>rd</sup> 2020



MAKING AN  
IMPACT THAT  
MATTERS  
*since 1845*

# Agenda

Challenges for the real economy or challenges for the banking sector?

9AM - 10:15 AM



Webinar foundations - the prospects of NPL ecosystem

- Joaquim Paulo, Deloitte
- Nuno Martins, Caixa Geral de Depósitos



Challenges for the real economy – the “Day after”

- Tom Simmons, Deloitte UK



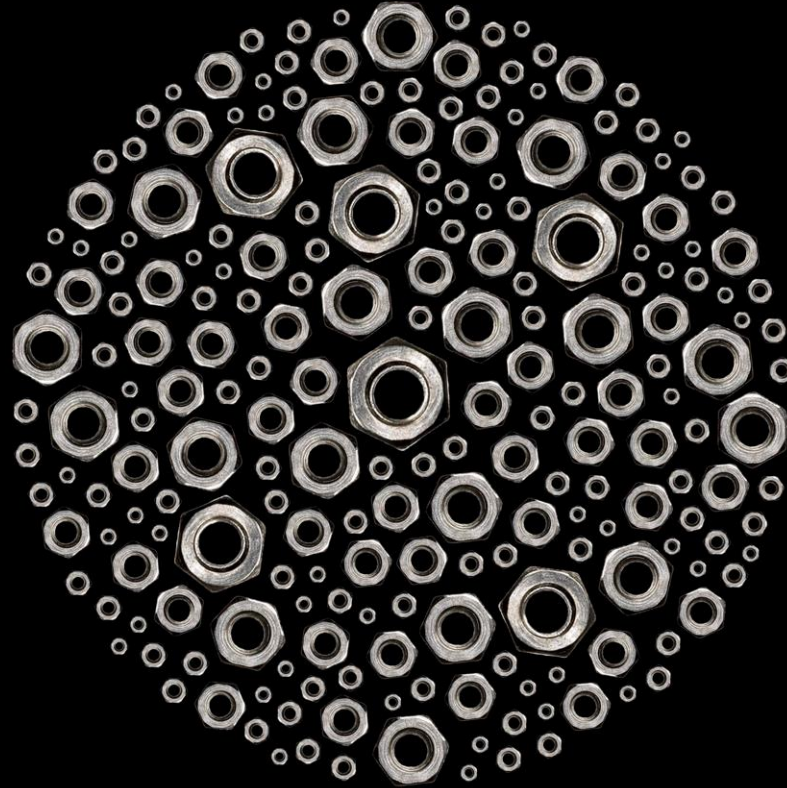
The Portuguese case – script for the banking sector

- Álvaro Nascimento, Católica Porto Business School



Q&A and closing





## Challenges for the real economy – the “Day after”

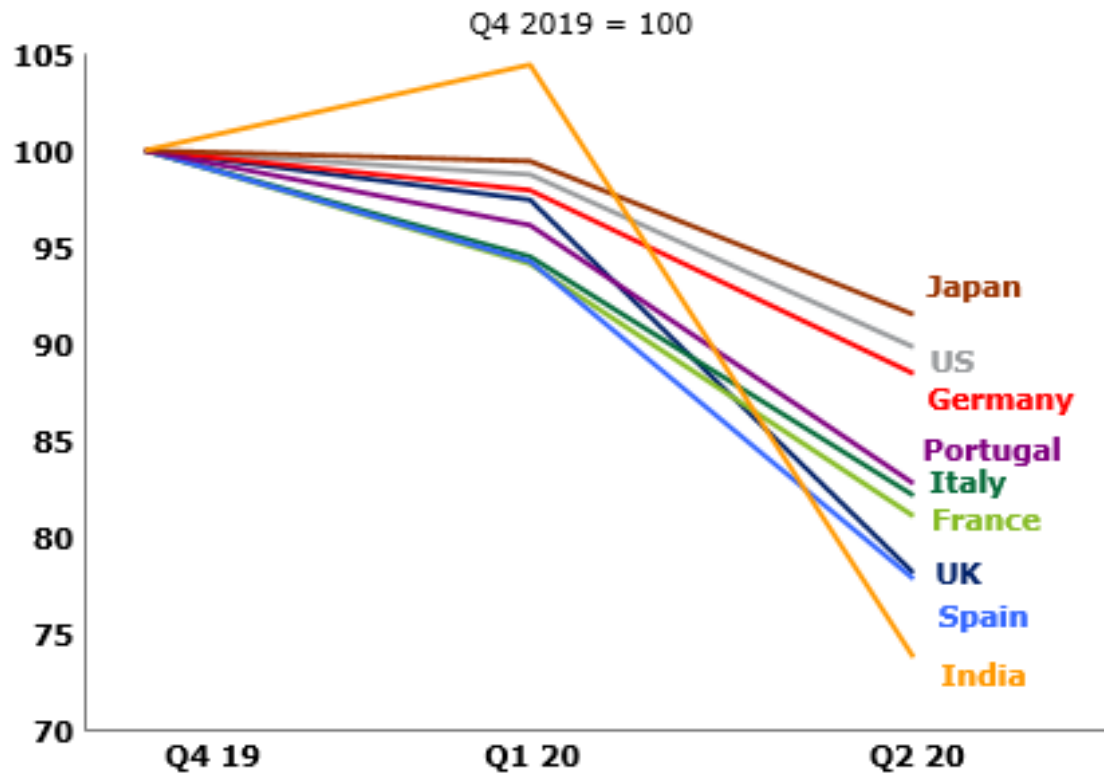
Tom Simmons, Economist | 23<sup>rd</sup> October 2020



**MAKING AN  
IMPACT THAT  
MATTERS**  
*since 1845*

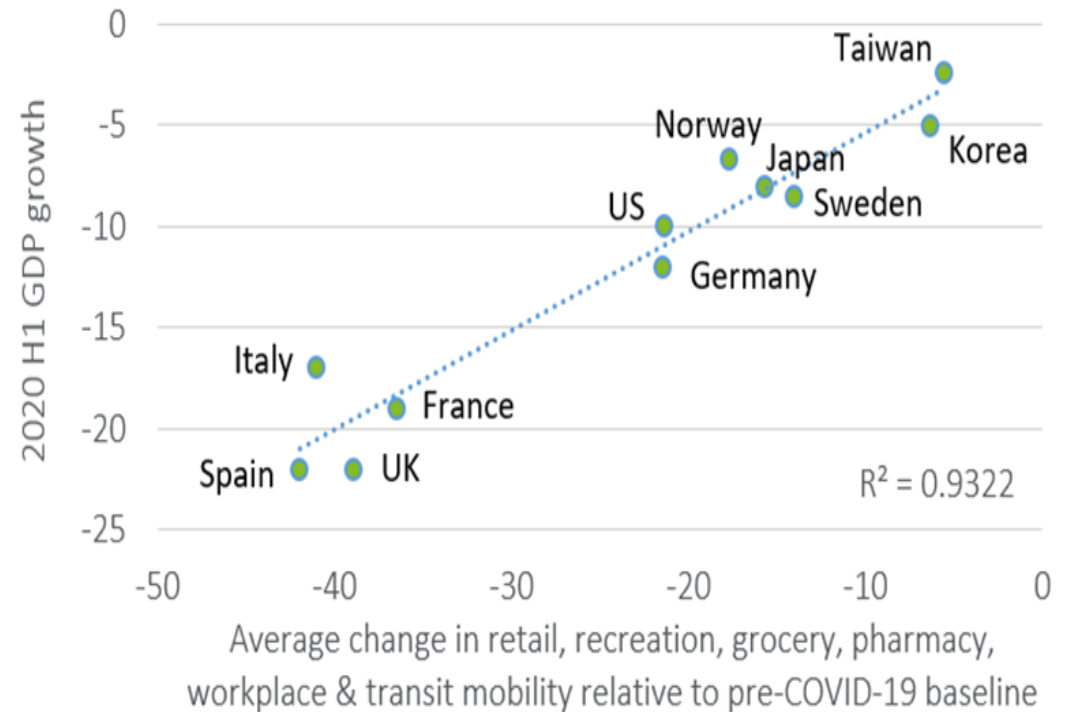
# Lockdowns drive huge contraction in second quarter GDP

## Real GDP



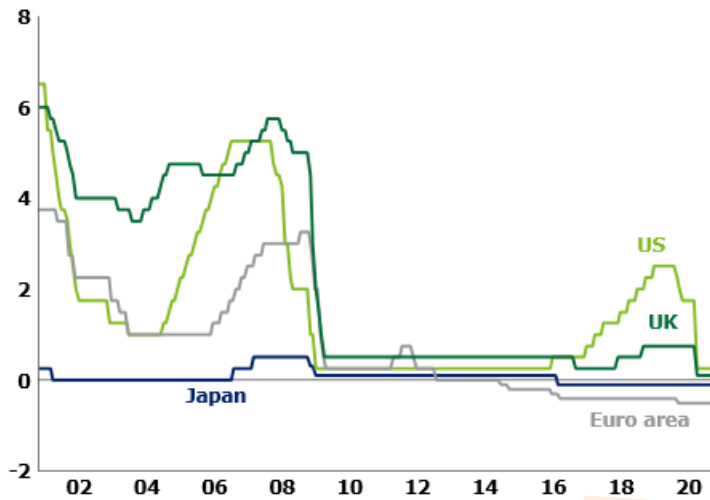
Source: Refinitiv Datastream

## H1 overall mobility vs GDP



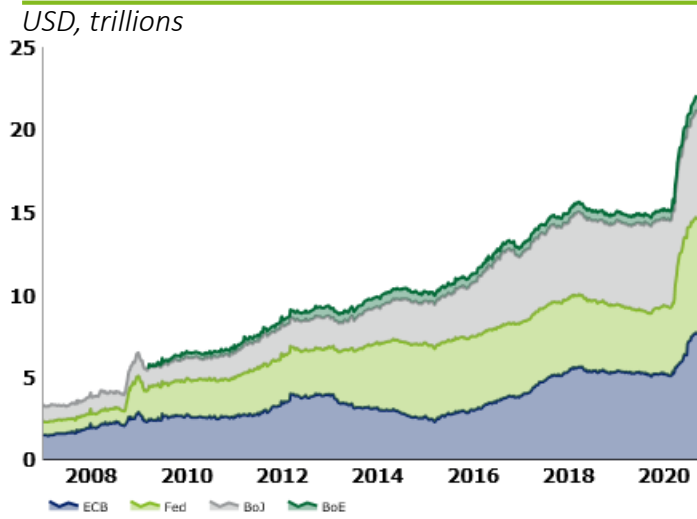
# Monetary and fiscal stimulus have supported activity and financial markets

## Central bank policy rates



Source: Refinitiv Datastream

## Central bank balance sheet, total assets

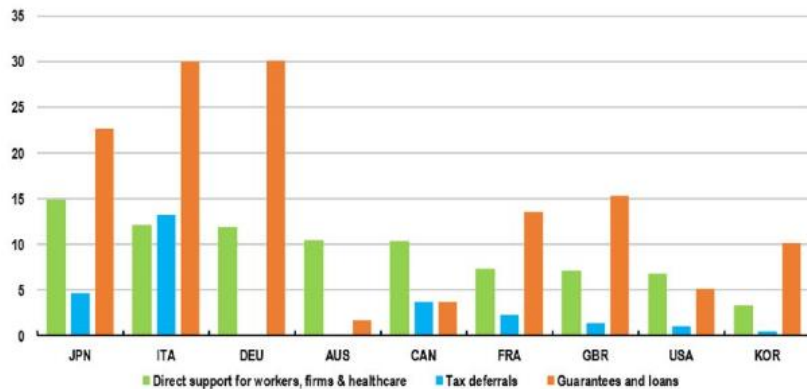


Source: Refinitiv Datastream

EU leaders strike deal on €750bn recovery fund

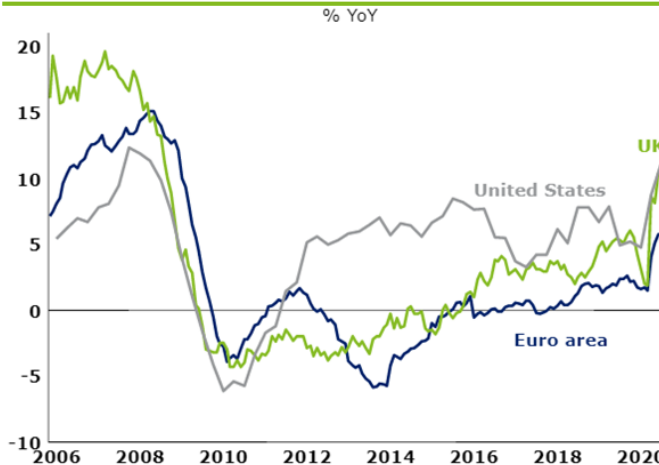
## Substantial fiscal support has been announced since the pandemic began: Official estimates of fiscal support

% of 2019 GDP



Source: OECD

## Lending to non-financial corporates

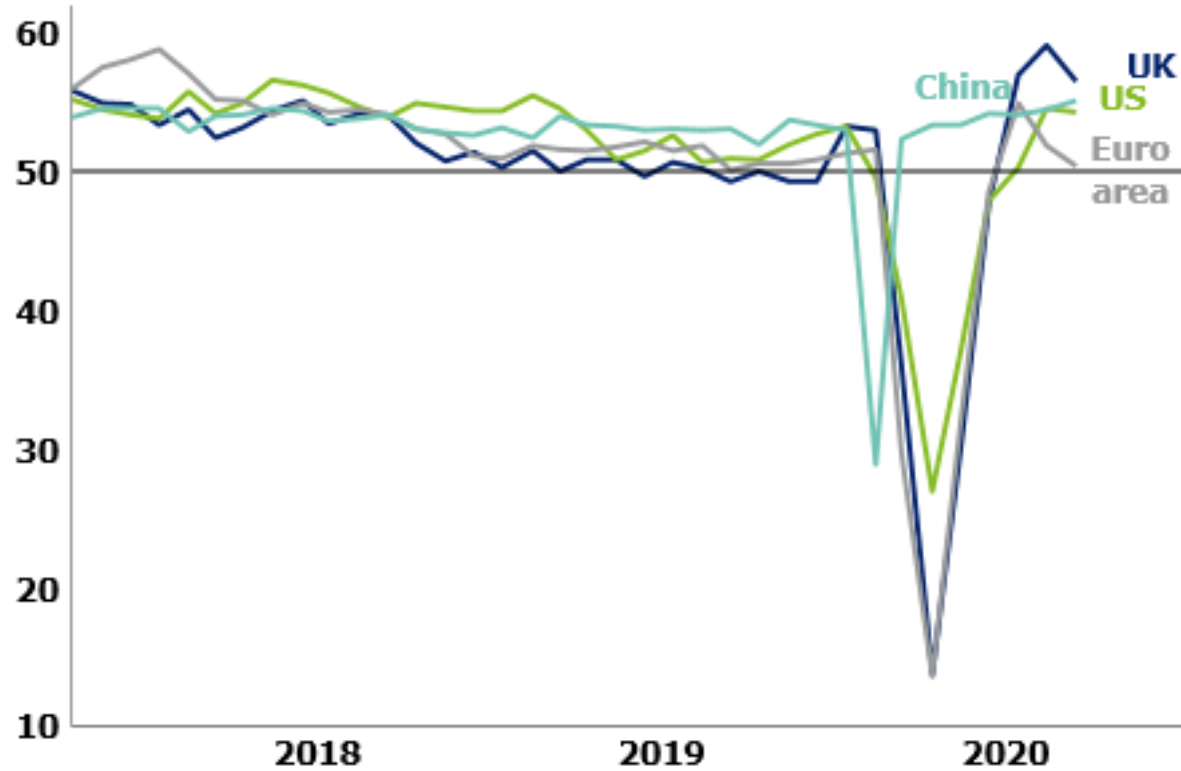


Source: Refinitiv Datastream

# Strong initial recovery

## Composite Markit / NBS PMIs

> 50 = expansion



Source: Refinitiv Datastream

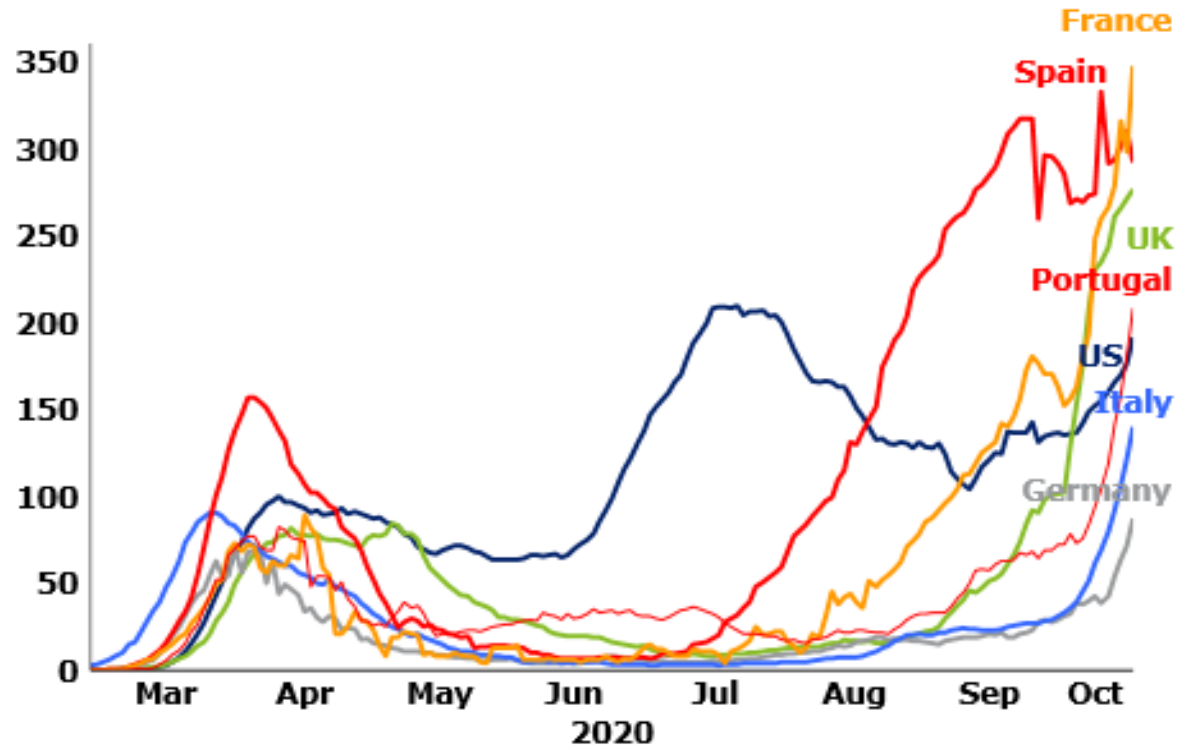
Third quarter bounce:

- Fiscal stimulus
- Monetary stimulus
- Low infection rates – lagged impact of lockdowns
- Pent up demand

But the recovery is slowing and faces significant headwinds - COVID-19 infections are rising

## New daily COVID-19 cases

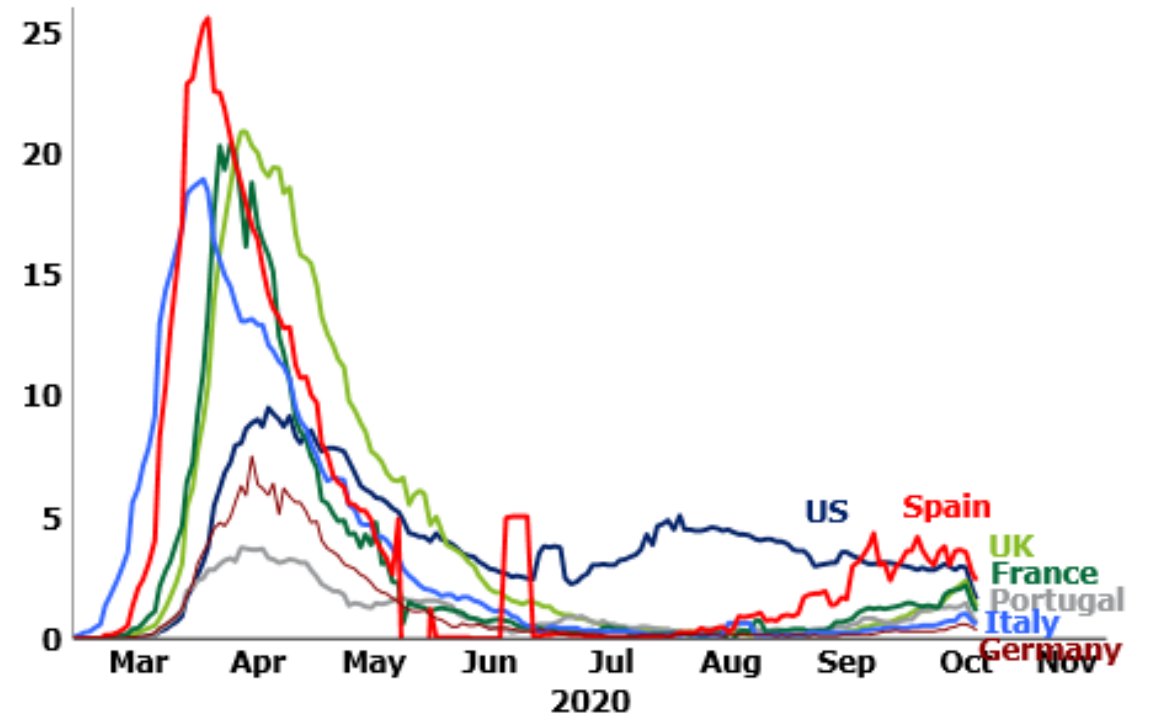
Per million of the population, 7 - day average



Source: Refinitiv Datastream

## COVID-19 new daily deaths

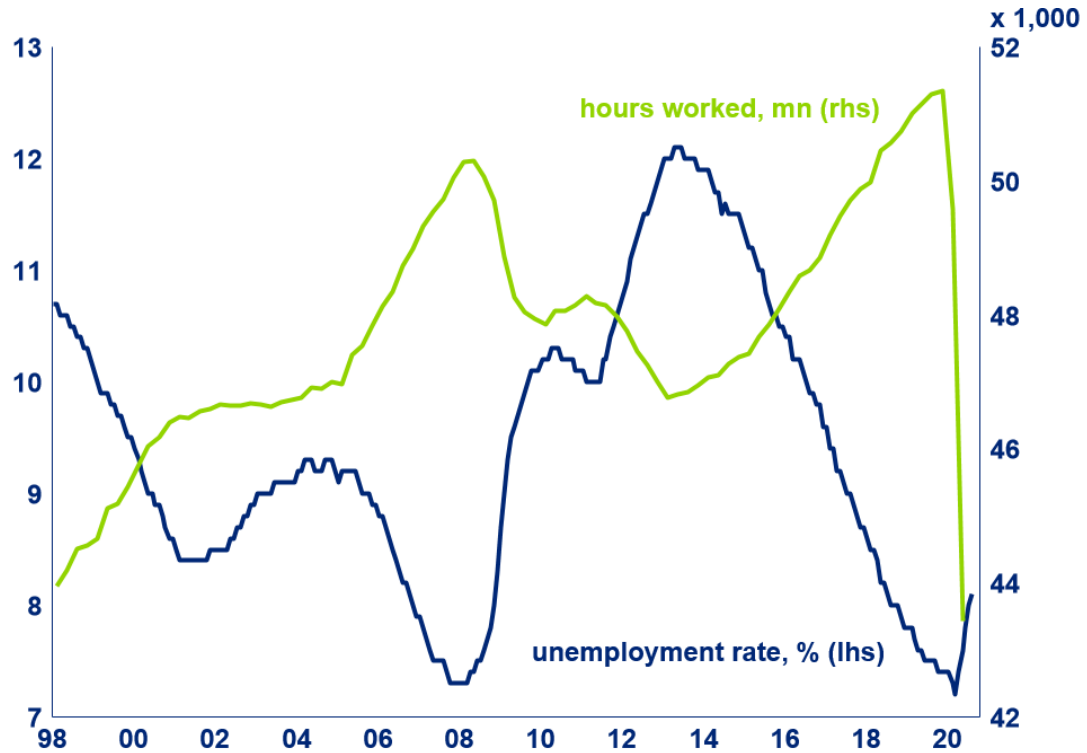
Per million of the population, 7 - day average



Source: Refinitiv Datastream

# Unemployment set to rise

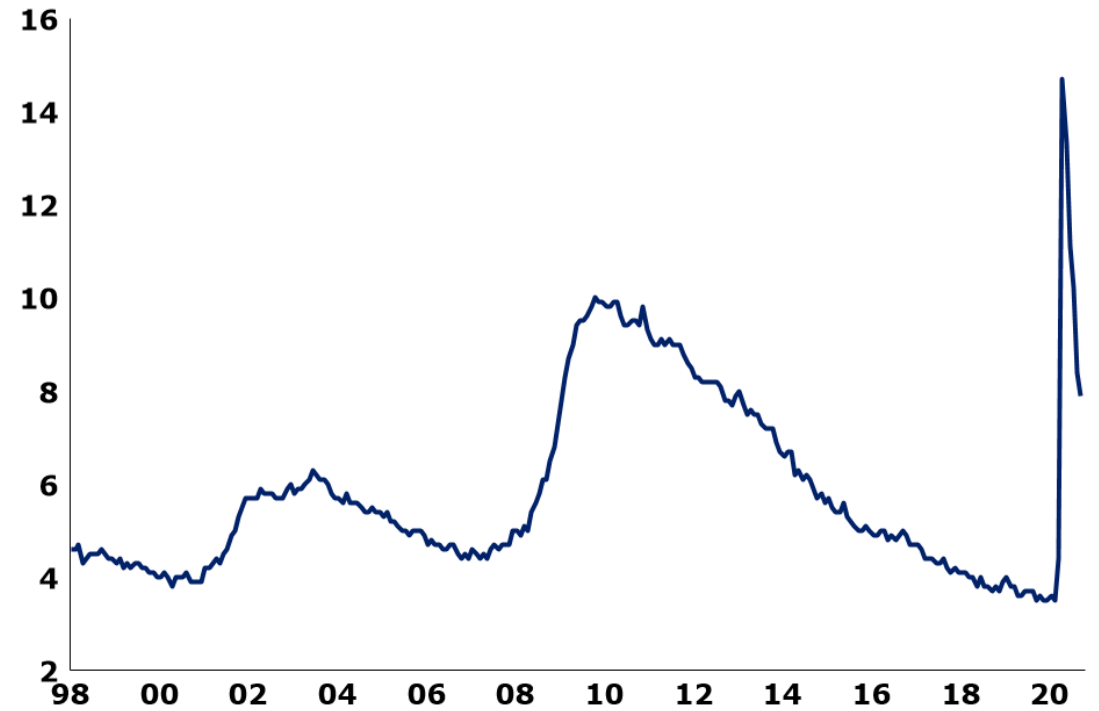
## Euro area unemployment rate and hours worked



Source: Refinitiv Datastream

## US unemployment rate

% of workforce



Source: Refinitiv Datastream



# Consumer confidence has fallen sharply

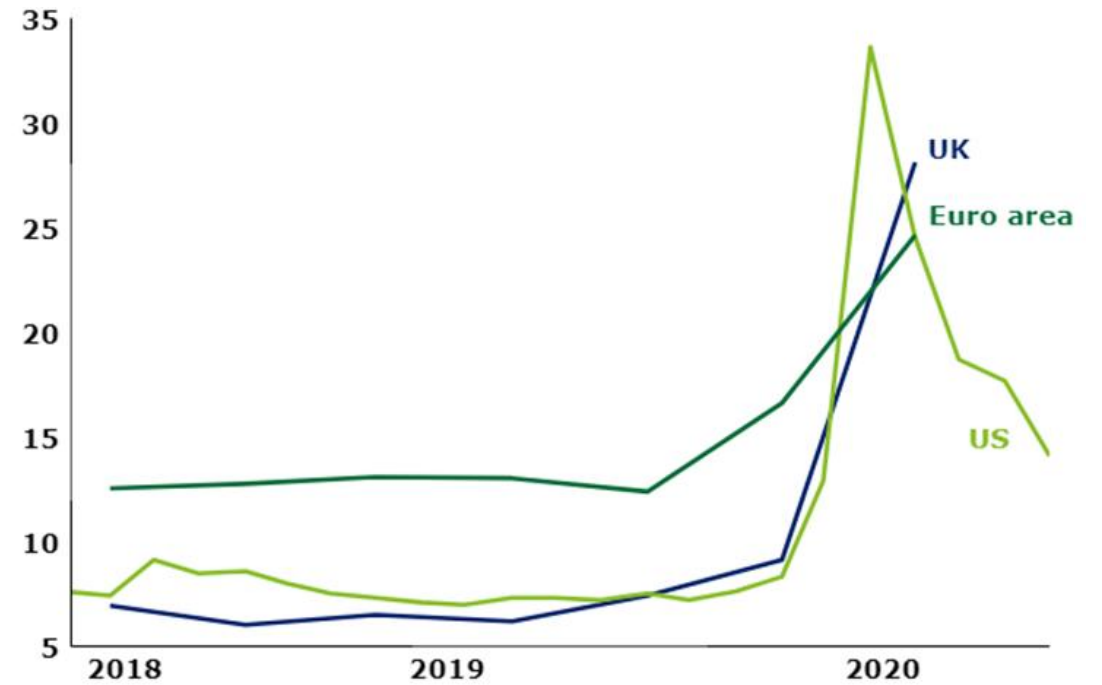
## Euro area consumer confidence



Source: Refinitiv Datastream

## Household savings rates

UK & US % of disposable income, euro area gross savings rate

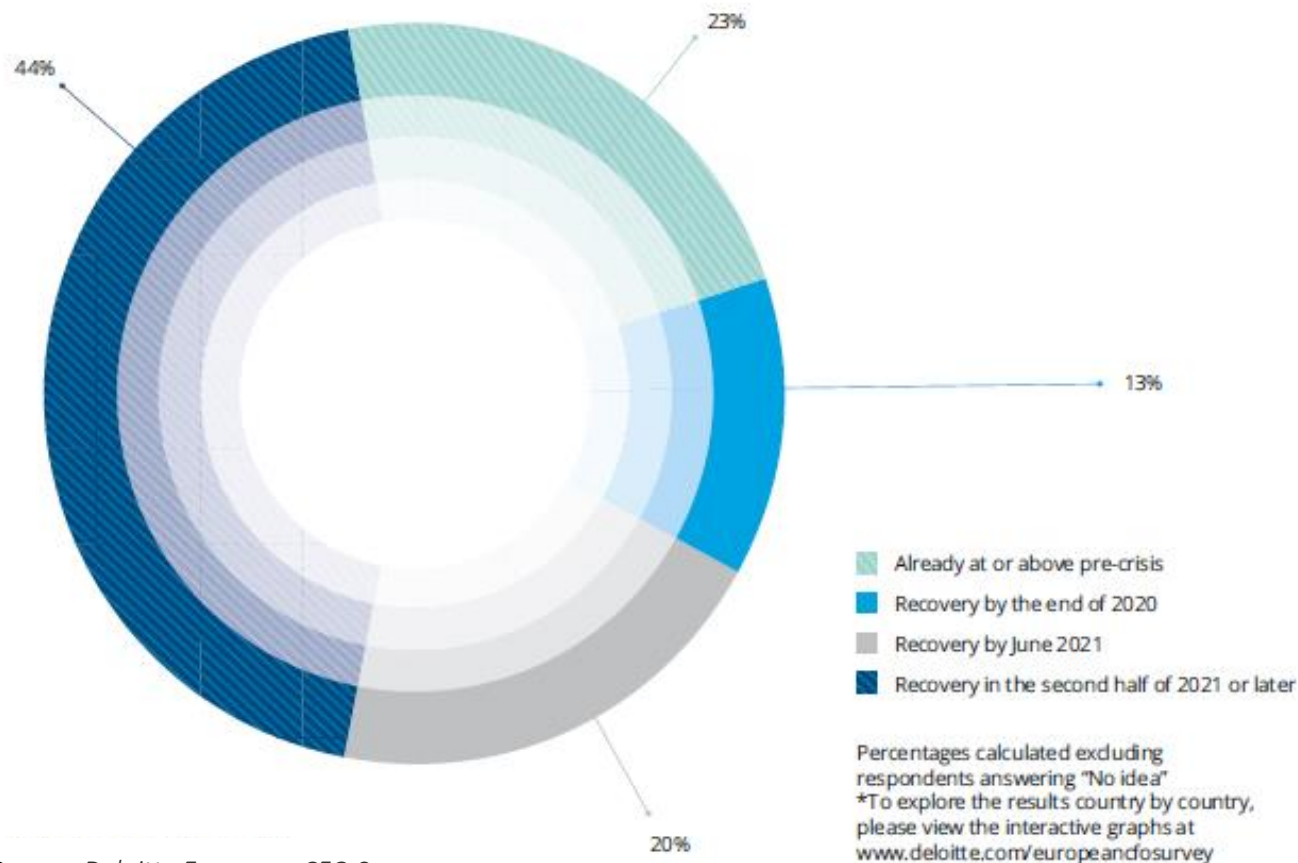


Source: Refinitiv Datastream

## Significant headwinds for corporates

### **A relative majority of companies expect to get back to pre-crisis levels in one-year's time at the earliest.**

Based on the information you have so far, when do you expect your company to return to a pre-crisis level of revenue generation?\*



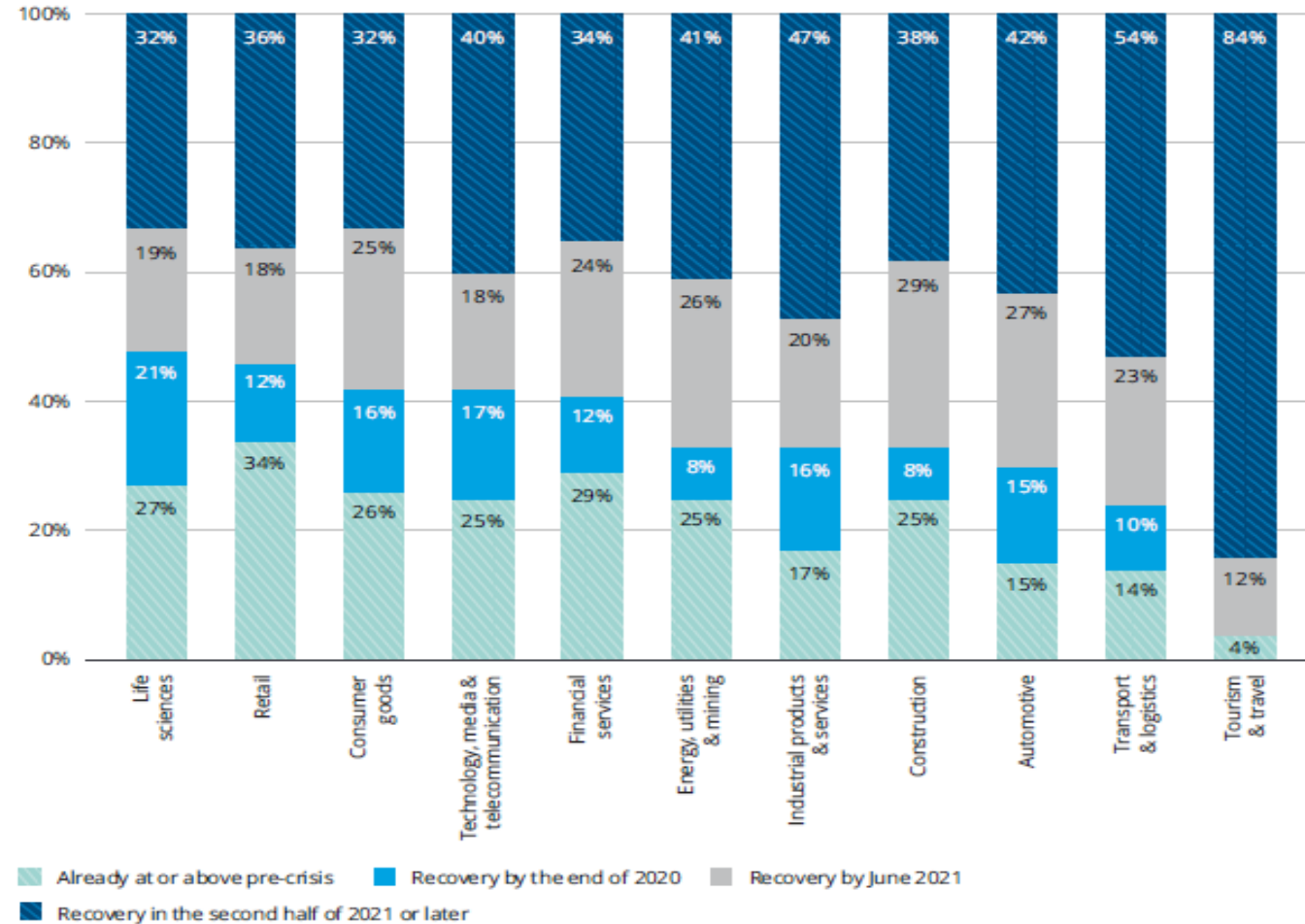
Source: Deloitte European CFO Survey

- Lower demand
- Higher levels of debt
- Operating below capacity due to restrictions
- Uncertainty

## Prospects vary significantly by industry

### Some sectors are coming back to pre-crisis levels at a more rapid pace.

Based on the information you have so far, when do you expect your company to return to a pre-crisis level of revenue generation?

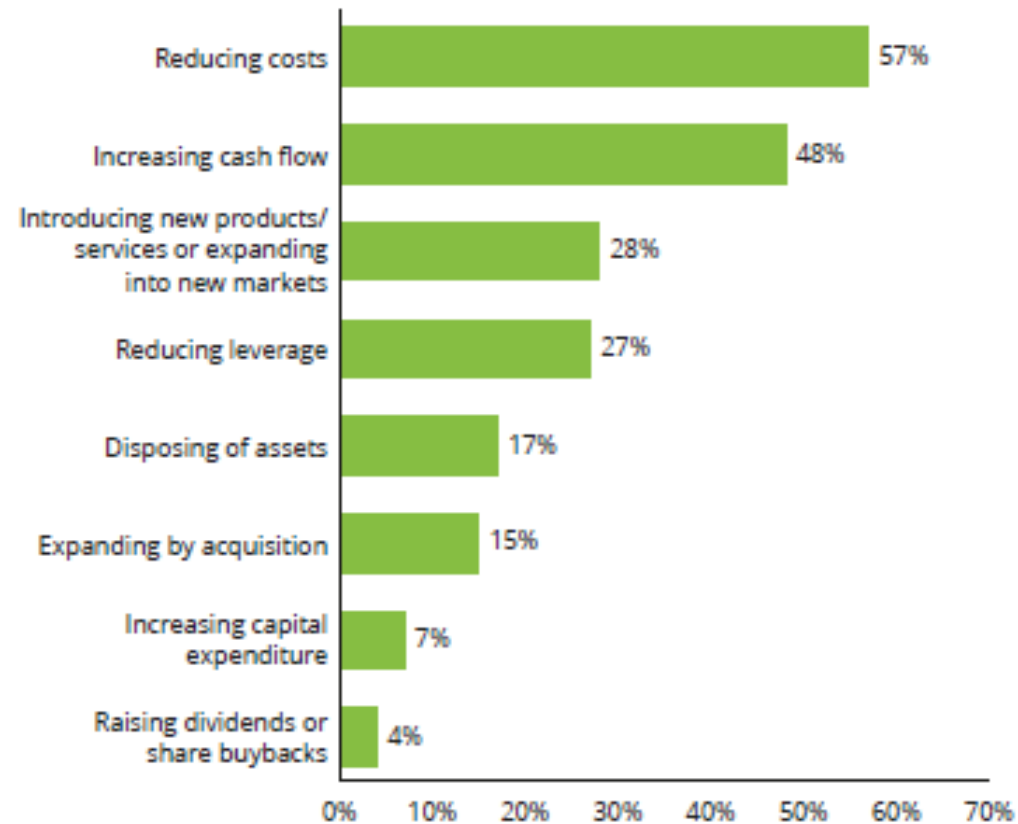


Source: Deloitte European CFO Survey

# Corporates are prioritising defensive balance sheet strategies

## Corporate priorities in the next 12 months

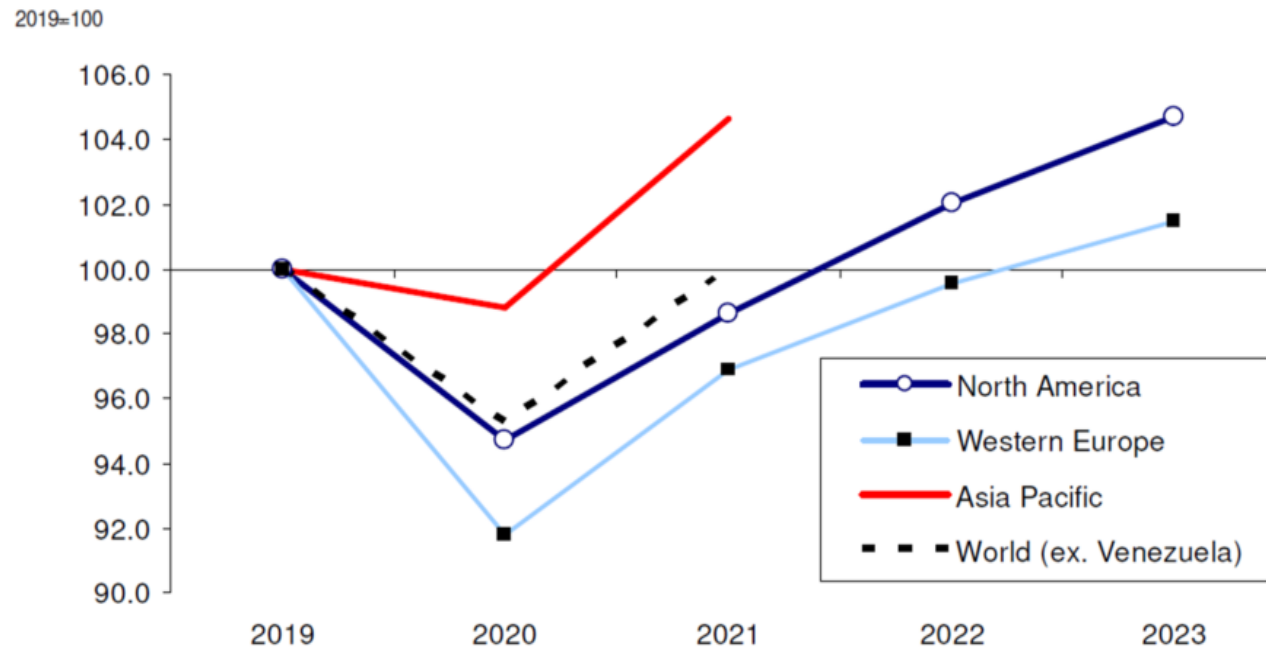
*% of CFOs who rate each of the following as a strong priority for their business in the next 12 months*



Source: Deloitte CFO Survey

# When are regions expected to return to pre-crisis levels?

## When Are Regions Expected to Regain Lost Output? Asia Pacific Already on the Way; Western Europe to Return to Pre-Crisis Levels in 2023



Source: Consensus Forecasts

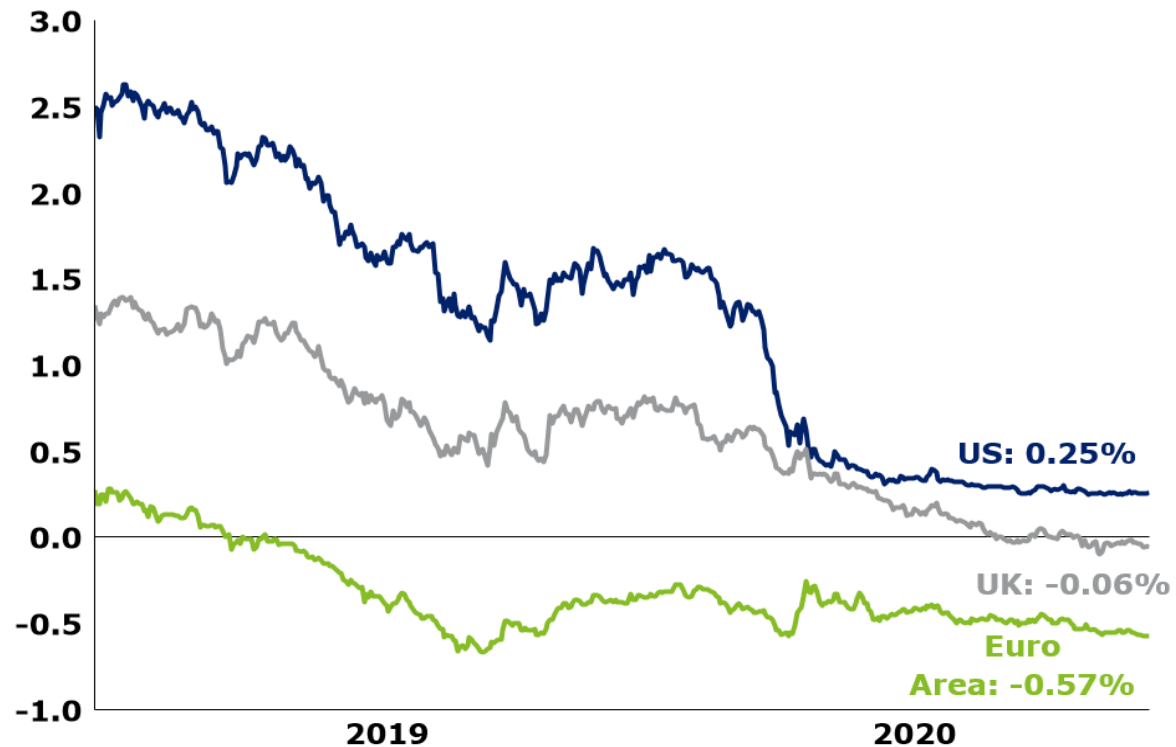
# Interest rates lower for longer

BoE says negative interest rates are 'under review' for first time

## Expect 3m interest rates by December 2021

ECB Indicates It Will Leave Negative Rates In Place for Some Time

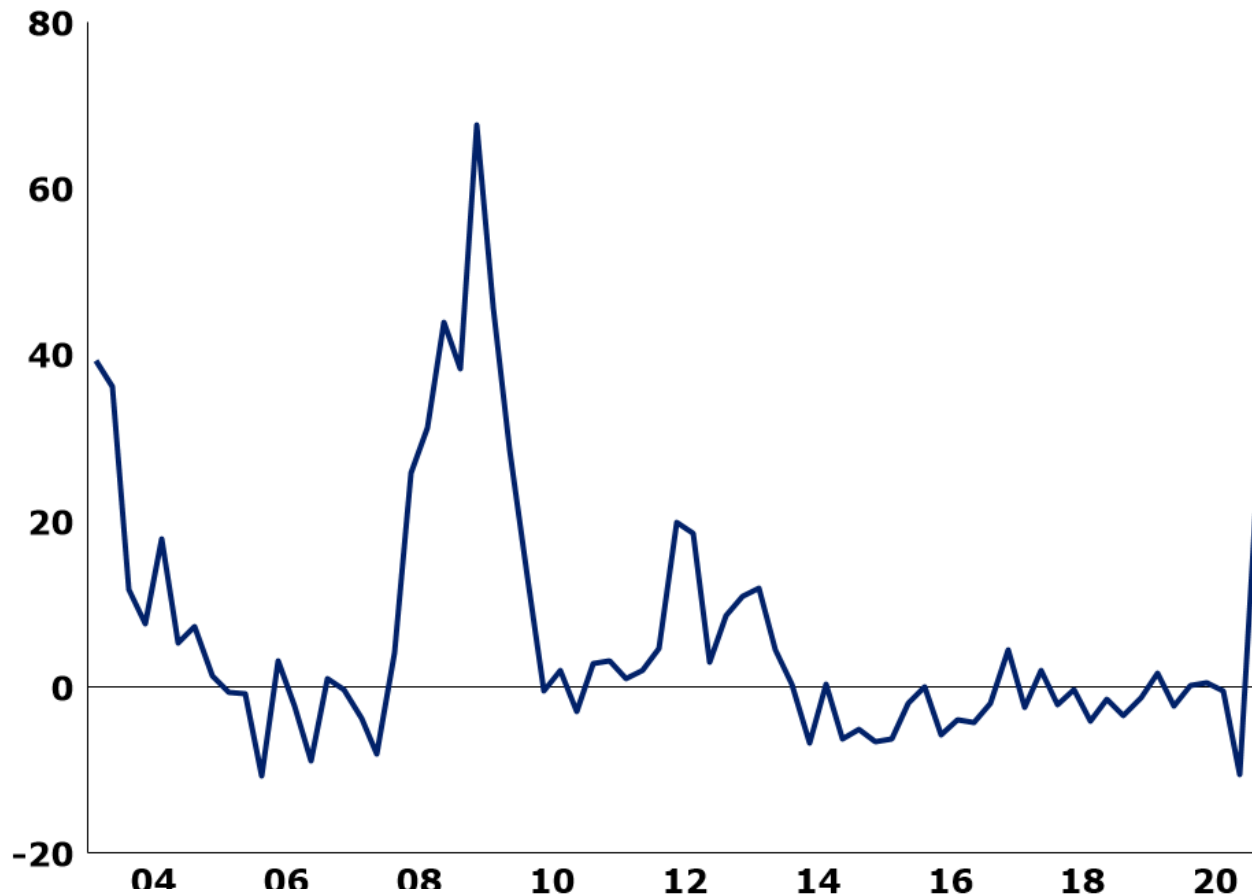
Fed predicts no rate increases until at least the end of 2022



Source: Refinitiv Datastream

## Euro area banks expect credit standards to tighten in Q3

### ECB bank lending survey: tightening/easing lending standards to corporates

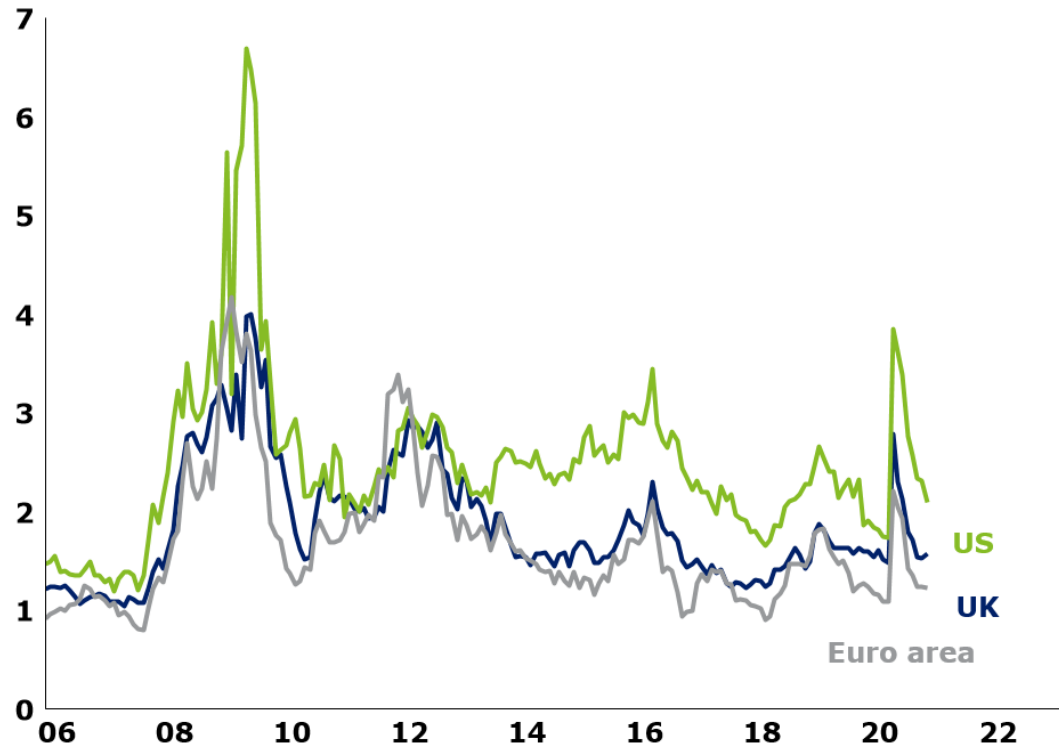


Source: Refinitiv Datastream

*Banks expect credit standards for enterprises to tighten considerably in the third quarter, which is reported to be related to the expected end of state guarantee schemes for loans in some large euro area countries. – ECB euro area bank lending survey*

# Corporate bond spreads have recovered, despite ongoing downgrades

## Spread of BBB corporate bonds yields over government bonds



Source: Refinitiv Datastream

## Equity indices

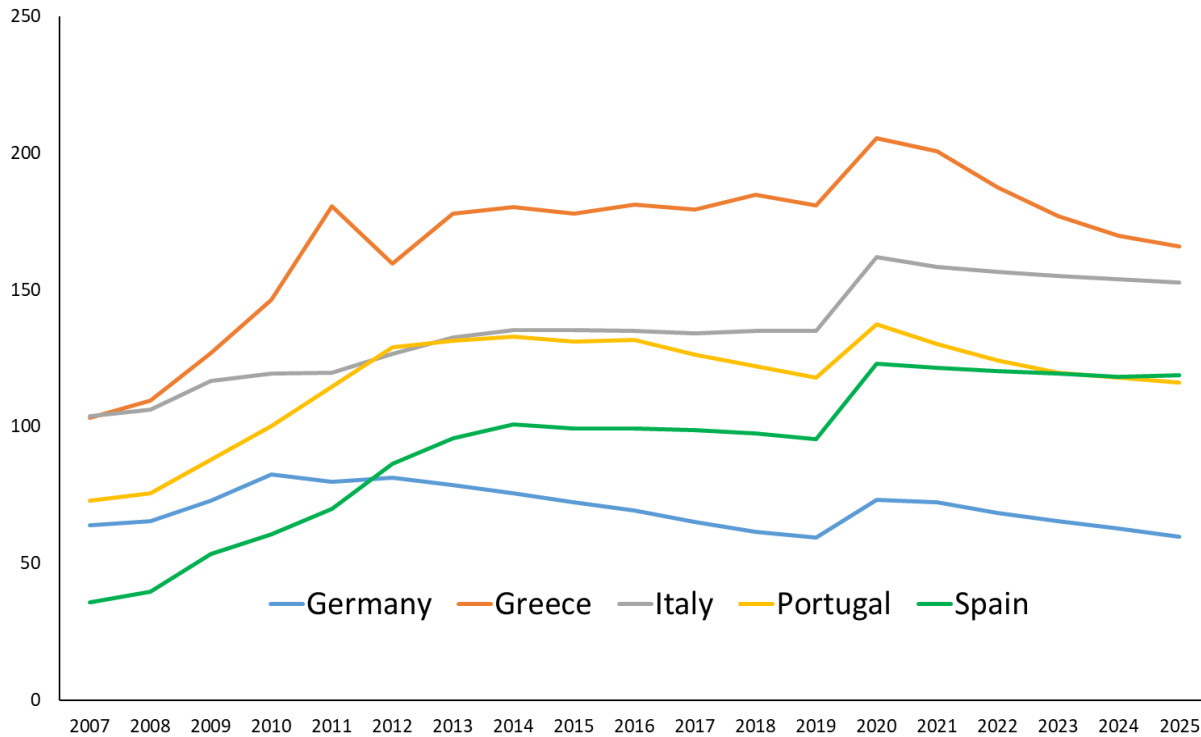


Source: Refinitiv Datastream



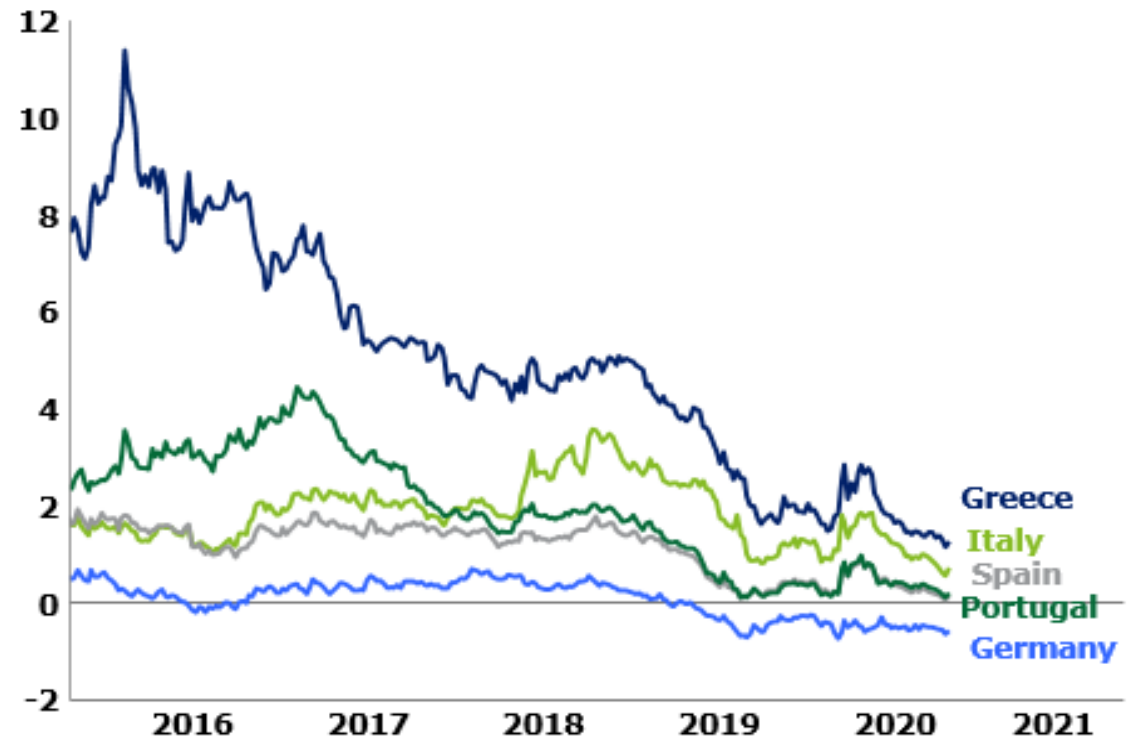
# Government debt has risen sharply, bond yields remain low

## Euro area government debt



Source: IMF

## 10 year bond yields in the euro area



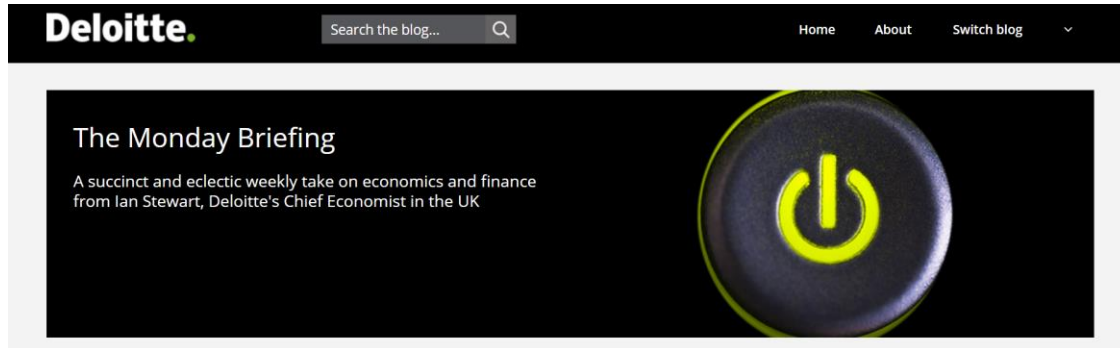
Source: Refinitiv Datastream

Source: Refinitiv Datastream

# Summary

1. 2020 likely to see biggest downturn in centuries
2. Easing of lockdown, pent up demand, stimulus = bounce back
3. Momentum has slowed over recent weeks with rising infections, restrictions
4. Corporates and households face lower income and rising debt burdens
5. Headwinds from scarring, debt, caution, social distancing
6. 2 years before economy returns to pre-crisis GDP
7. Central banks countered initial financial stress and supported asset prices, but credit conditions may tighten

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Article

Deloitte COVID-19 Economics Monitor



# NPL ecosystem in Portugal webinar, Deloitte

23 de Outubro de 2020  
Porto, CPBS, Álvaro Nascimento ©



CATOLICA  
CATÓLICA PORTO  
BUSINESS SCHOOL

PORTO



# Factory of NPLs

Risk & Return in the Portuguese Corporation

Where: St. Barbara's Church in Kutna Hora, Czech Republic  
About: Fibonacci spiral, Golden Ratio

# purpose

is there hidden value to  
unlock in Portuguese  
corporations?



# viewpoint

Financial Intermediaries are enablers, weaving threads that link investors and corporations.

# Toolkit The Corporation

From a financial (not managerial) perspective, we can represent the corporation as a portfolio of assets (i.e., microeconomics capital) essential for production, which needs to be funded.

## Working Capital

Cash Conversion



## Tech Capital

Production Technology



Where: Chicago Mercantile Exchange floor, 1997

Author: Andreas Gursky | <https://www.andreasgursky.com/en/works/1997/chicago-mercantile-exchange>

# Toolkit

## The Financial System

Financial Markets and Institutions exist to perform two basic functions: [1] serve the payments system; and [2] intermediate savings and investments.

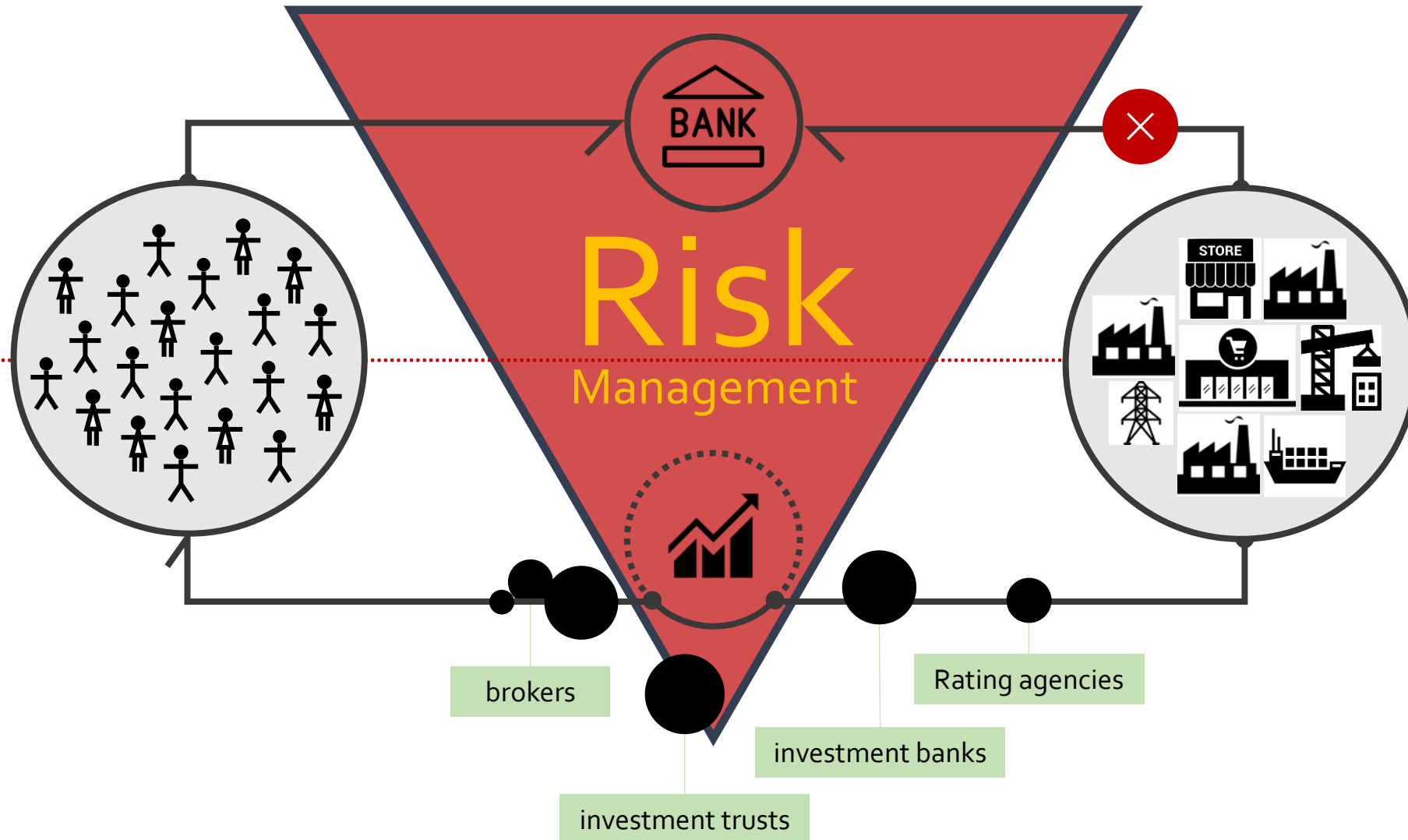


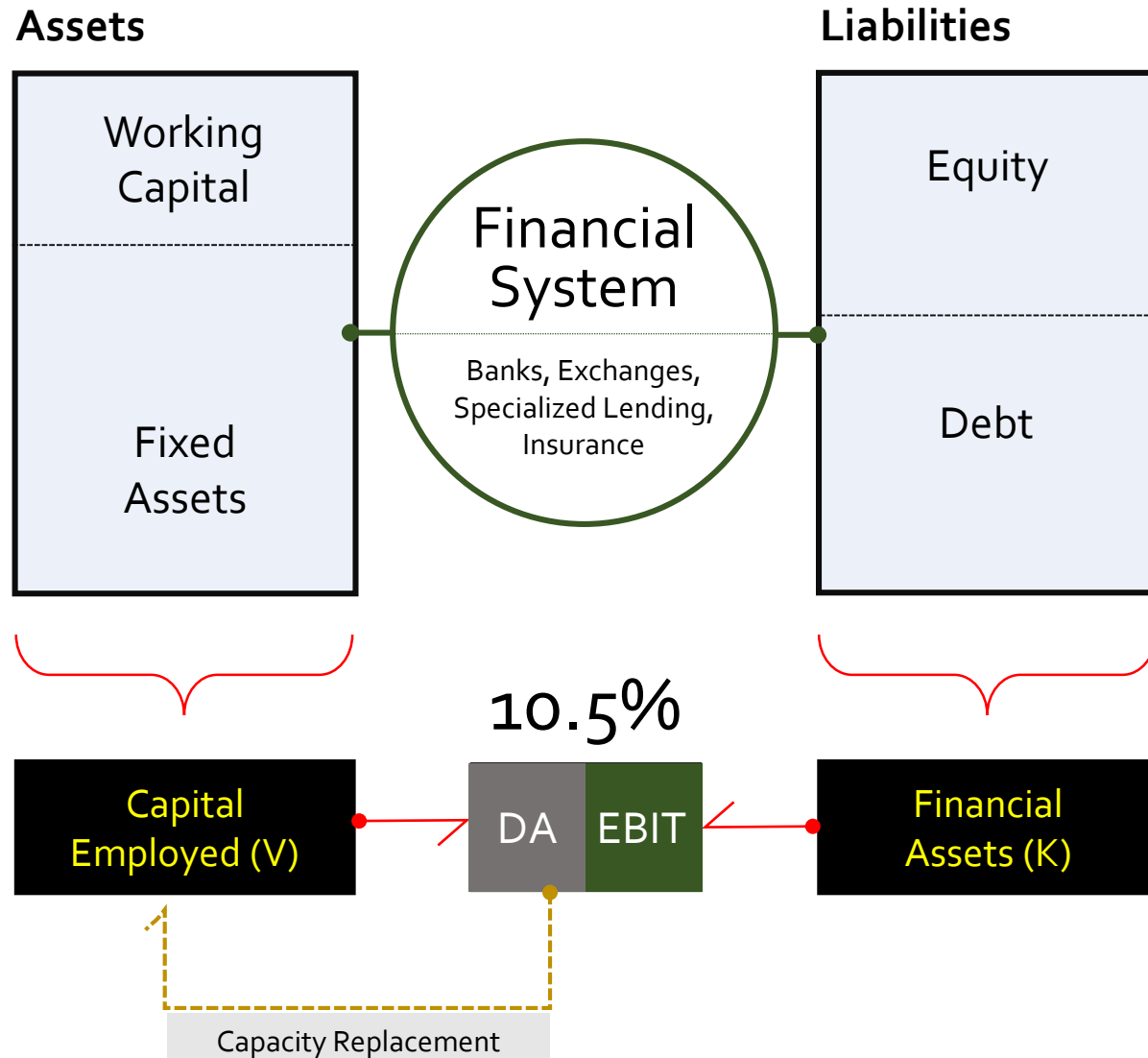
Households  
savings

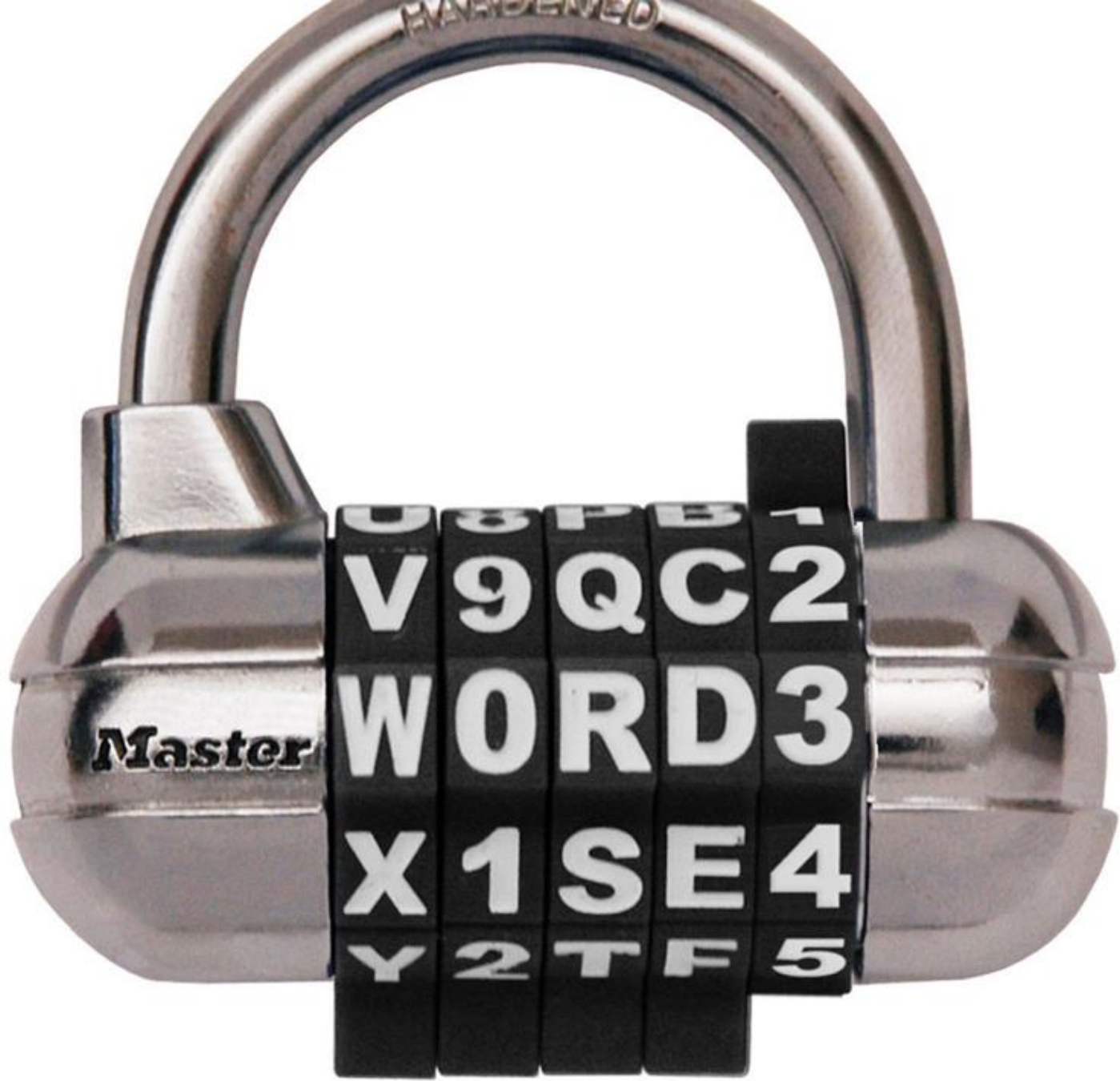
Corporations  
Investment



# Financial System pooling and screening







# insight

Corporations offer returns far lower than required, given business risk exposures.

In

Out

**117** days

Production  
**Cycle**

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations.

**Working  
capital**  
cash conversion



In

Out

117 days

72 days

63 days

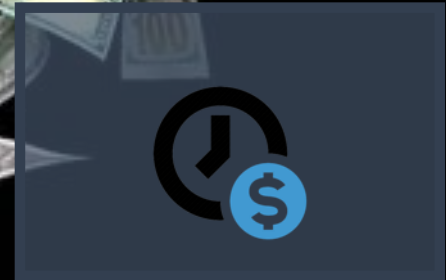
109 days

Payment  
(suppliers)

Collection  
(receivables)

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations.

**Working  
capital**  
cash conversion



# social contracting

## Tech Capital

production &  
technology

Production Parts  
and Services

Suppliers  
markets for inputs

Funding  
Machinery and  
Equipment



Final Goods  
and Services

Customers  
markets for goods

Labour

Workers  
labour markets



# Actual contracting

## Capital Employed

Production &  
Technology



# value sharing

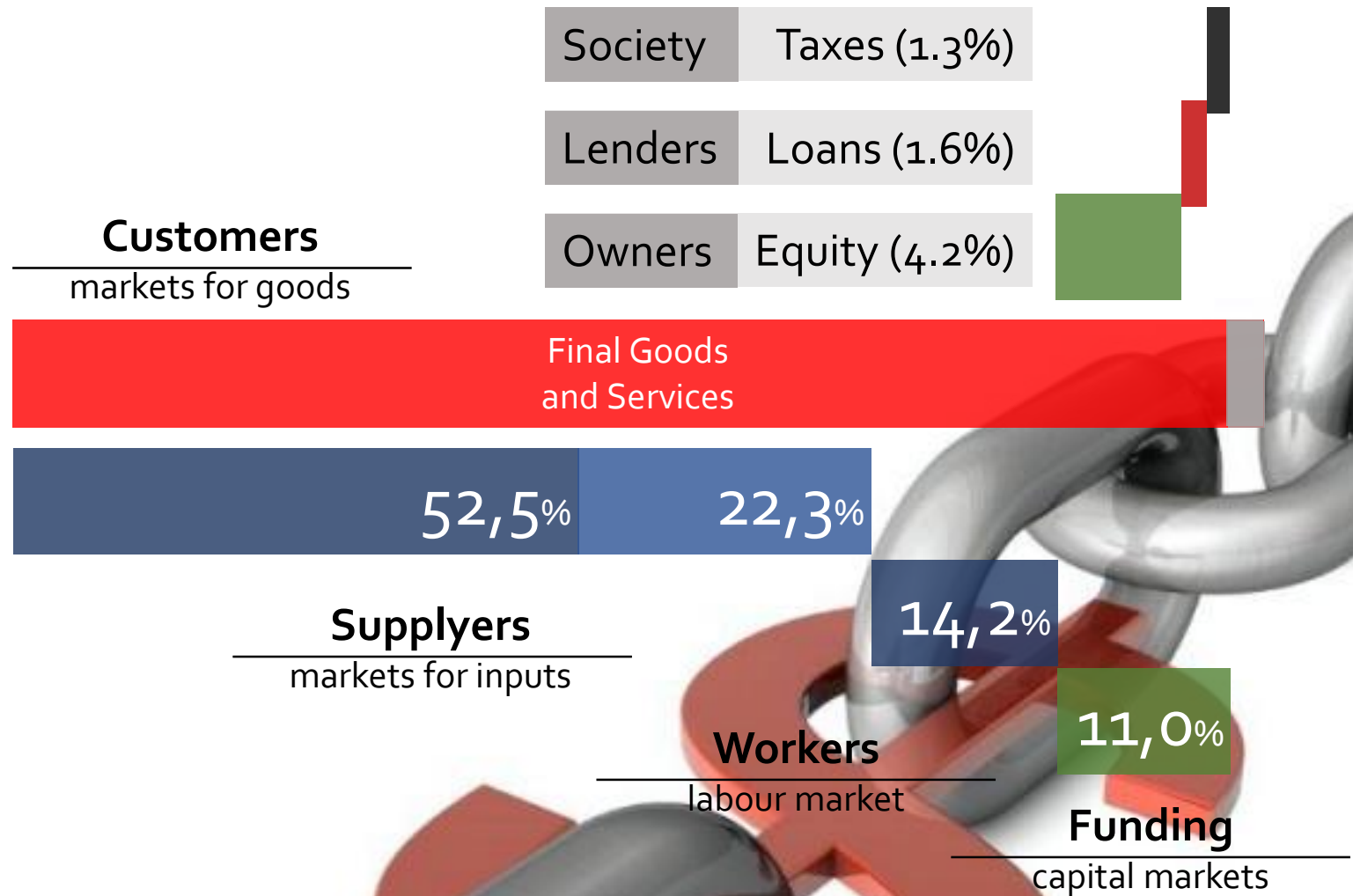
## Capital Employed

Production & Technology



Productivity | Innovation | Balance

32



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations.



# Return Capital Employed

on

Society Taxes (1.3%)

Lenders Loans (1.6%)

Owners Equity (4.2%)



## Capital Employed

Production &  
Technology



# 6.7%

# Return Capital Employed

on

Society	Taxes (1.3%)
Lenders	Loans (1.6%)
Owners	Equity (4.2%)



4.3%

2014

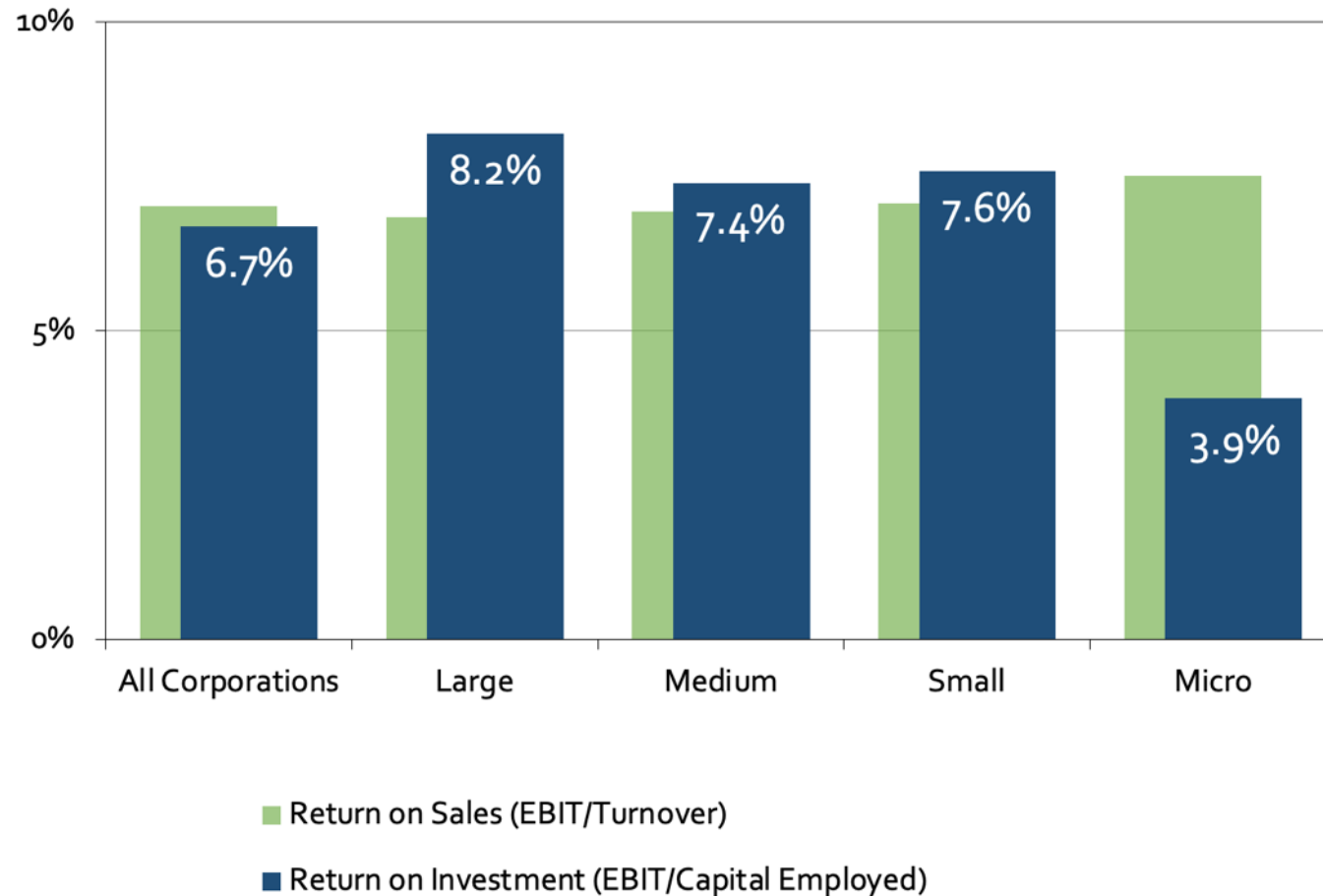
**Capital  
Employed**  
Production &  
Technology



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations.

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**Investing**

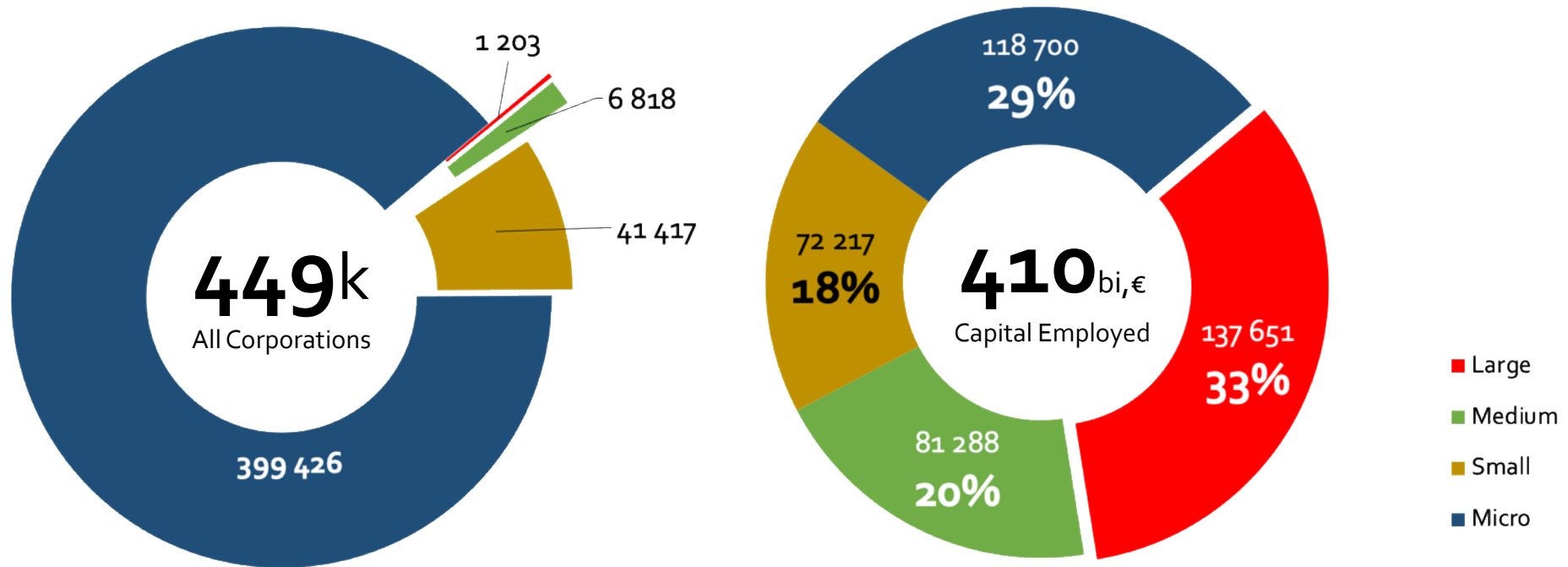


# Return on Capital Employed 2018

Too small returns for too many small corporations: micro firms account for 16% of revenue and 26% of capital employed; small and medium perform alike.

Micro corporations account for almost 30% of overall capital employed: similar to large corporations, yet only (less than) half profitable!

# Too Many... Too Small & NOT Profitable!



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
 Notes: Portugal, all non-financial corporations, 2018. Own calculations.

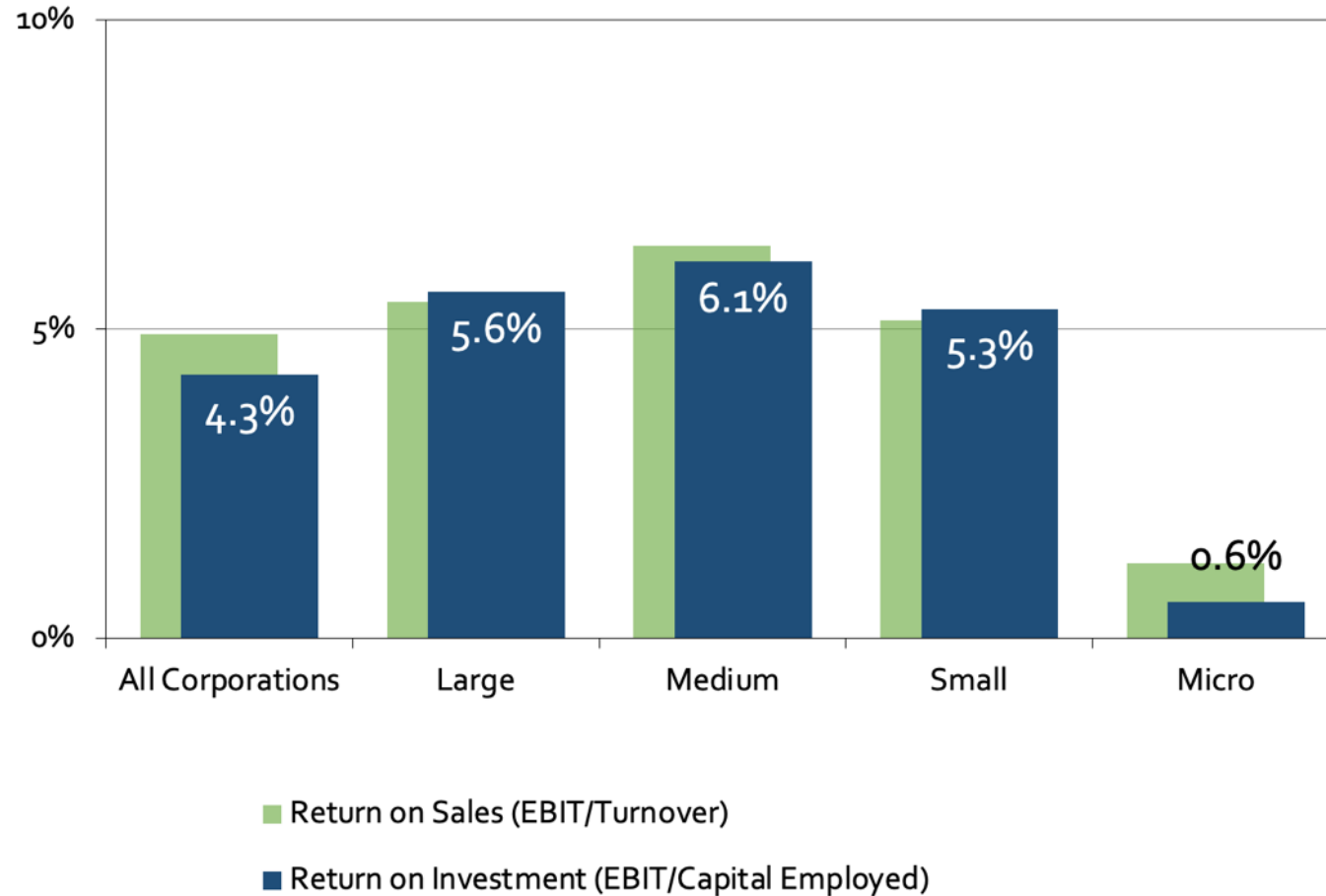
**Return on Capital Employed**  
(percentage points, chg. '10-14)

**+2.6%**

**+1.3%**

**+2.3%**

**+3.3%**



# Return on Capital Employed

2014

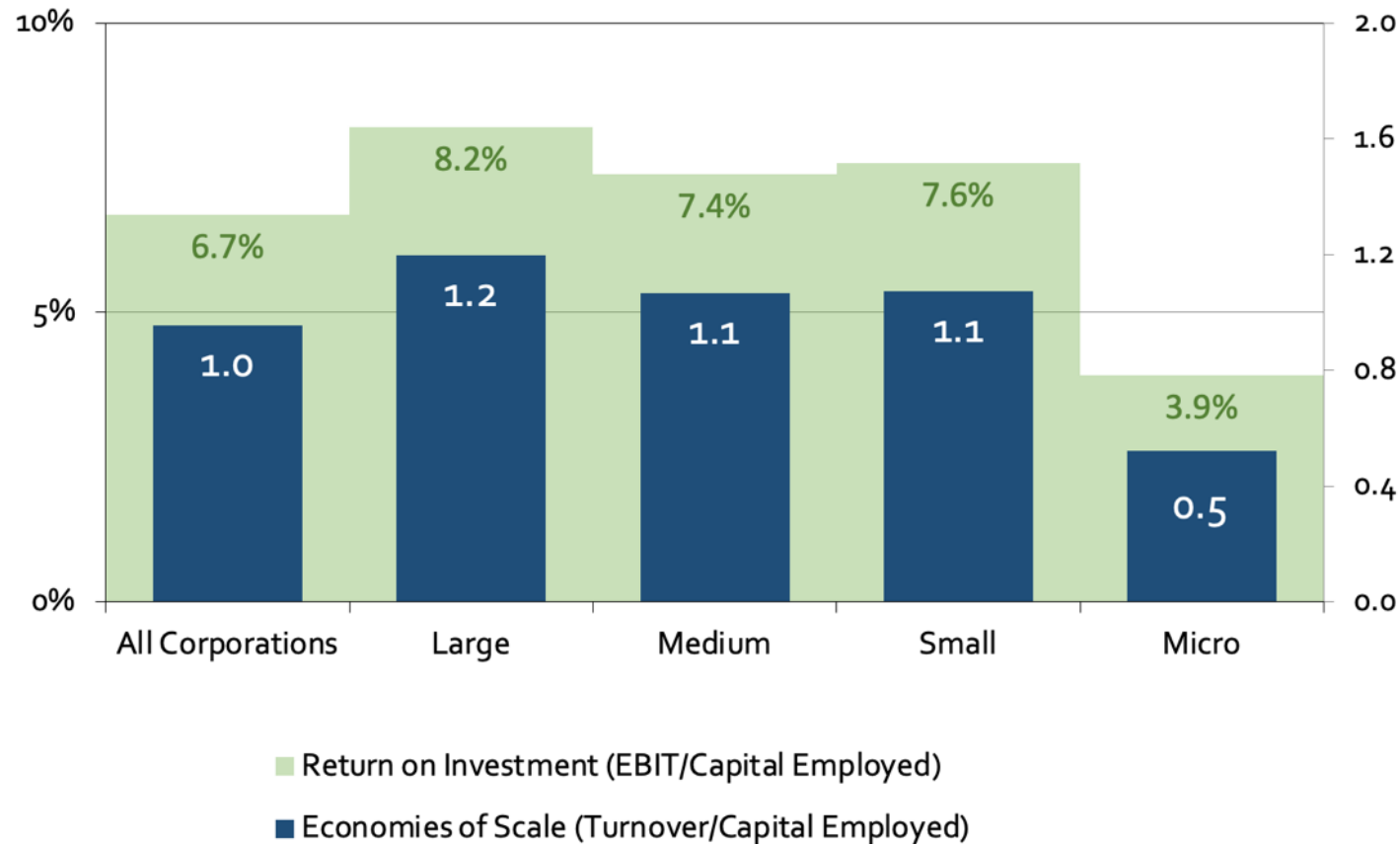
**+2.4<sup>pp</sup>**  
change '10-14

Strong improvement for large and small corporations.

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2014. Own calculations.

# Economies of Scale 2018

Undersized corporations, unable to achieve economies of scale and offering inferior returns on capital.

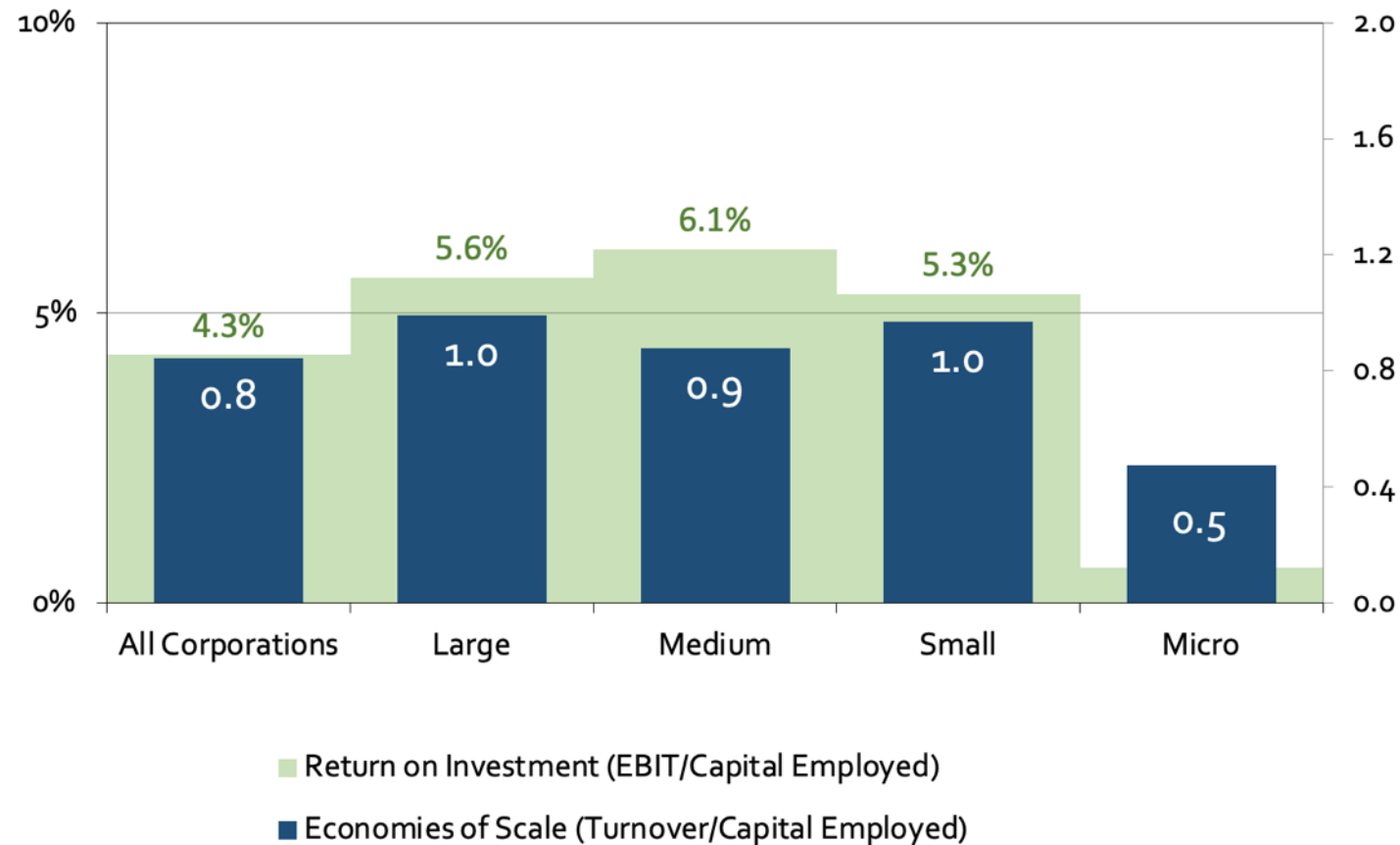


Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
 Notes: Portugal, all non-financial corporations, 2018. Own calculations.

# Economies of Scale

## 2014

Excessive capital employed, high fixed costs, and suboptimal operational leverage shown in low levels of profitability.



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
 Notes: Portugal, all non-financial corporations, 2014. Own calculations.

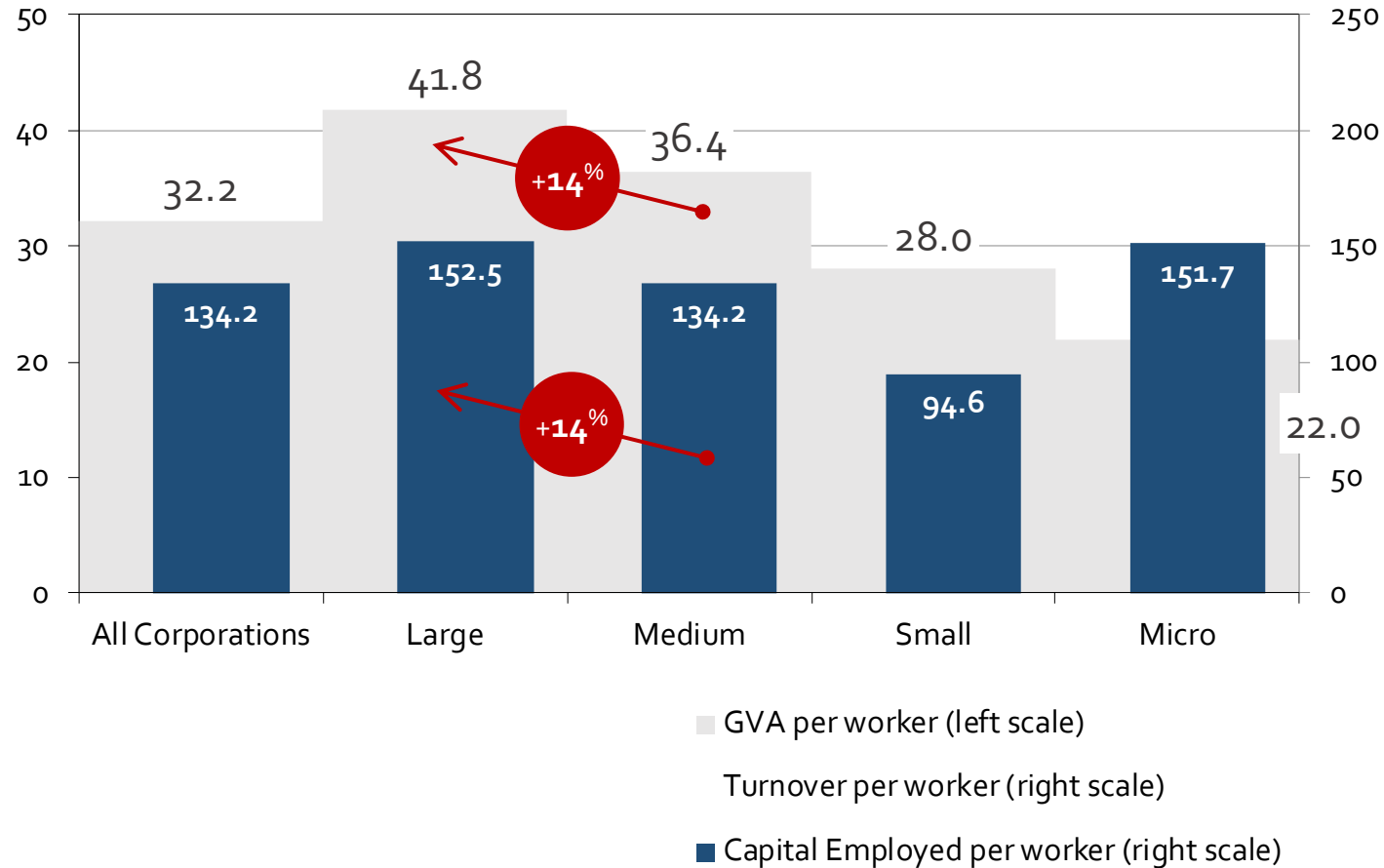


Productivity of Capital  
(GVA/Capital Employed)

0.274

0.271

0.296



# Productivity Puzzles [labour] 2018

Large corporations make better use of labour resources than any other. Yet, Large and Medium sized firms are equally productive (when normalized by capital).

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations. Values as thousand of euros.

**Capital** Productivity Gain  
(GVA/Capital, chg. '10-14)

+27%

+11%

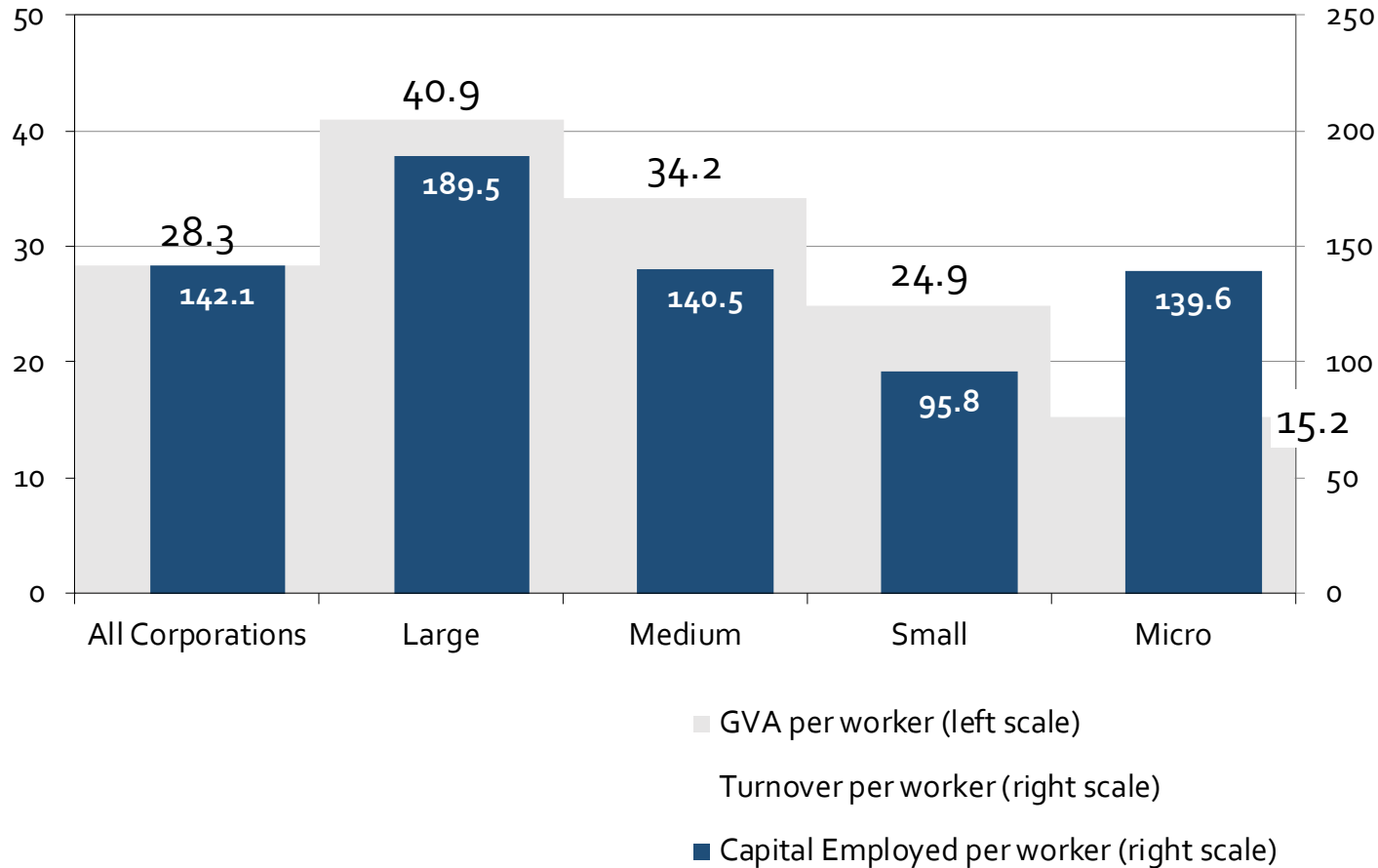
+13%

**Labour** Productivity Gain  
(GVA per worker, chg. '10-14)

+2%

+6%

+12%



# Productivity Puzzles

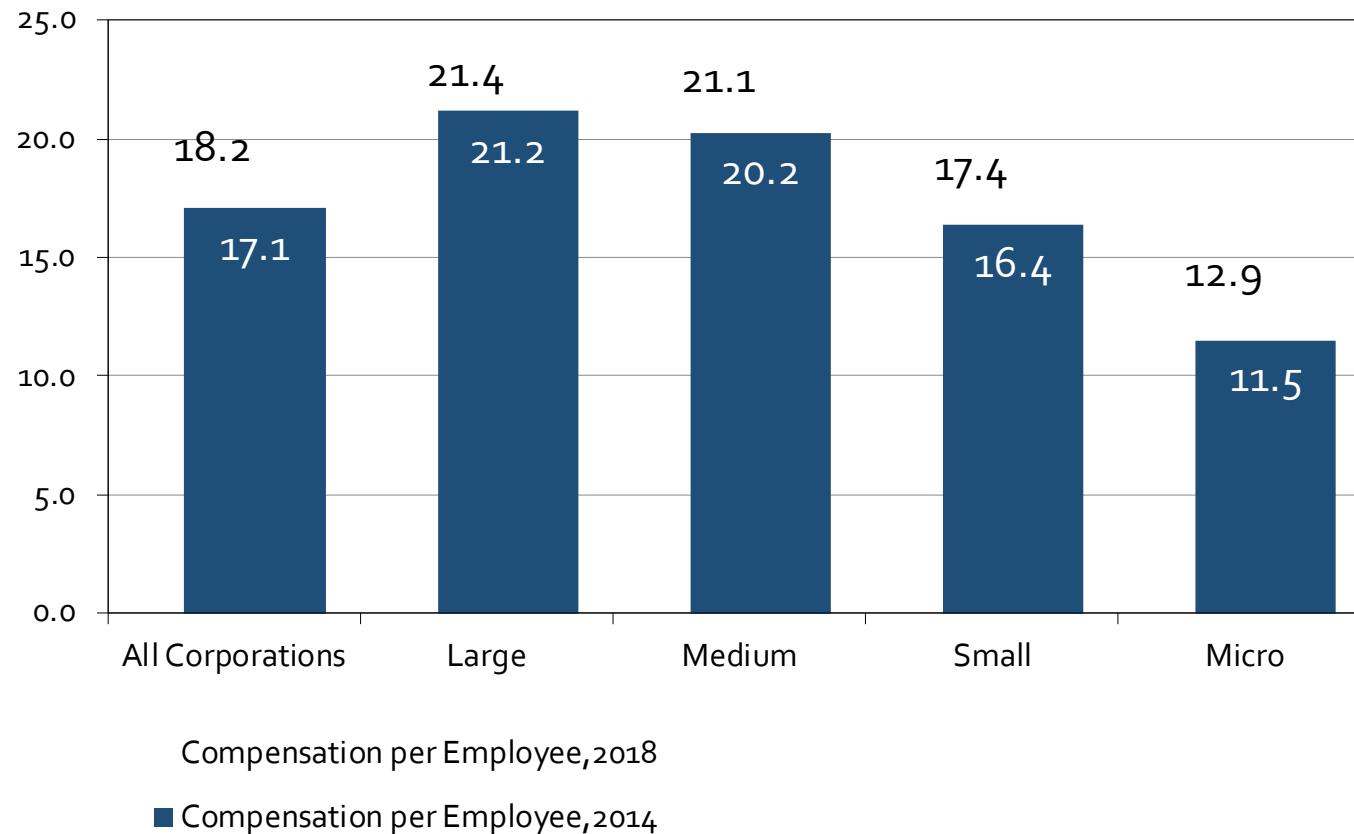
## 2014

Overall, firms optimized usage of capital and labour: small and medium sized posted labour productivity gains; while the larger decreased capital employed without loss in GVA.

# Value sharing [wages]

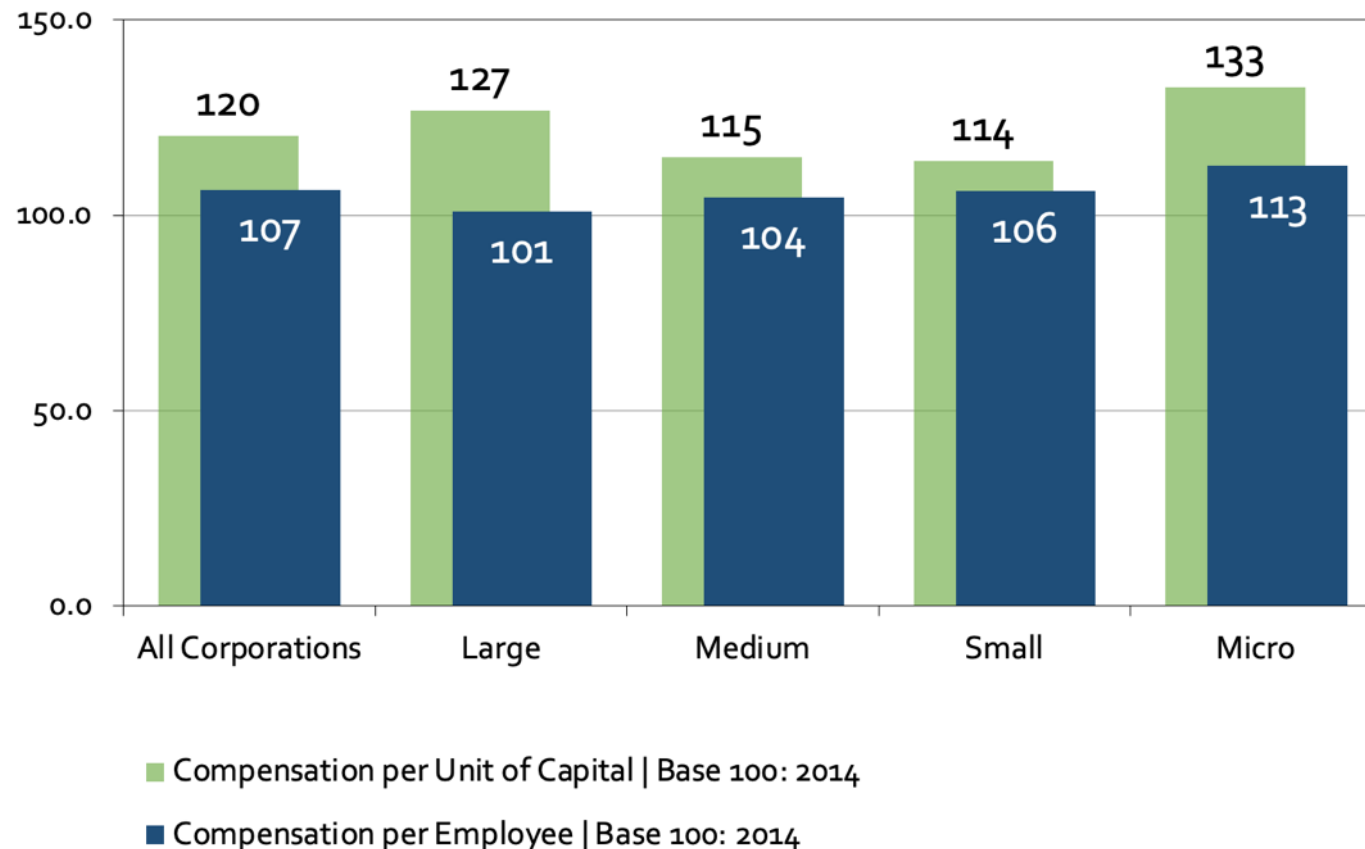
## 2014-18

Similar employee remuneration in large and medium sized firms, despite higher labour average productivity in the former.



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations. Own calculations. Values as thousand of euros.

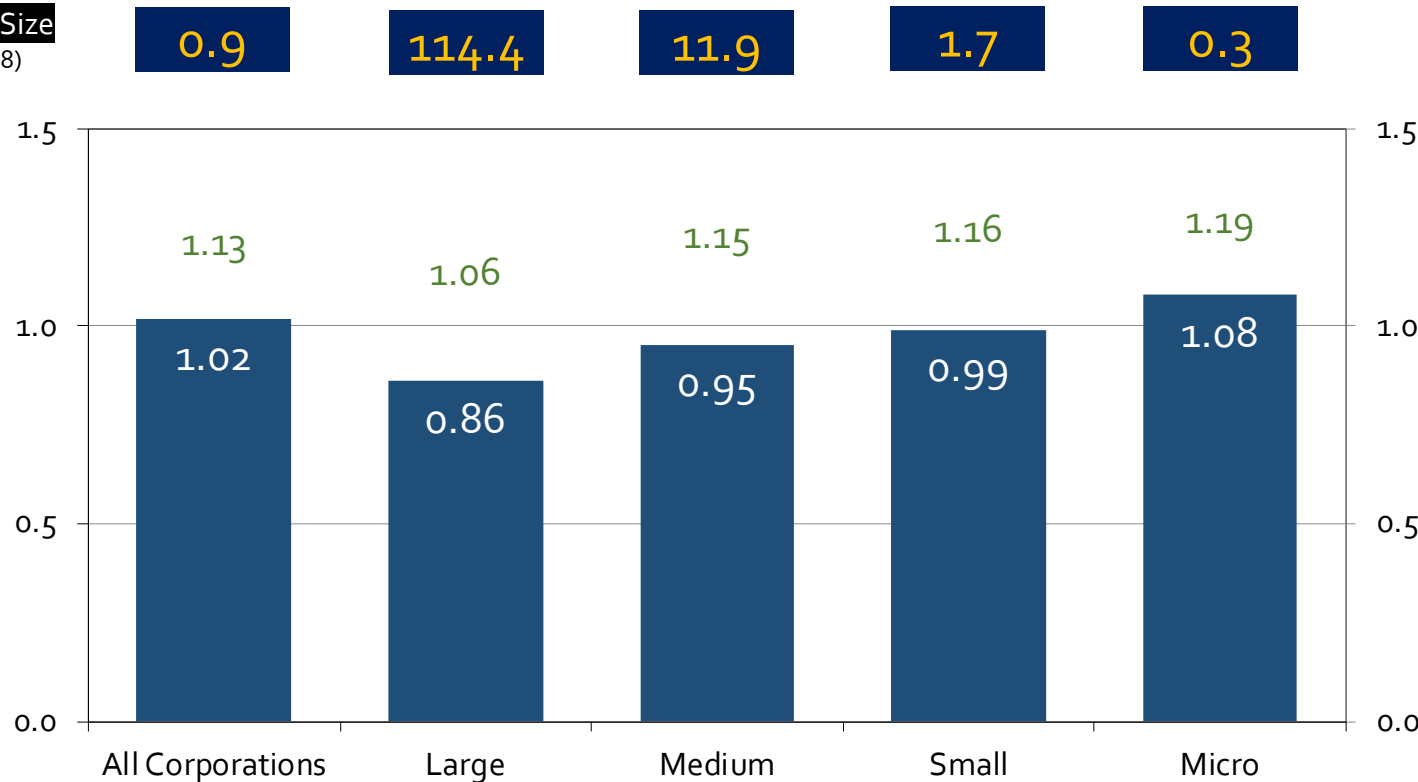
# sharing Gains [capital] 2014-18



Productivity gains use to increase remuneration of capital, while labour was kept approximately constant, except micro and small firms: is labour a fixed cost?

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations. Own calculations. Values as thousand of euros.

Corporation Size  
(avg., mi. €, 2018)



Capital Employed (all corporations) | Base 100: 2014

■ Capital Employed (average corporation) | Base 100: 2014

# usage of Capital 2018

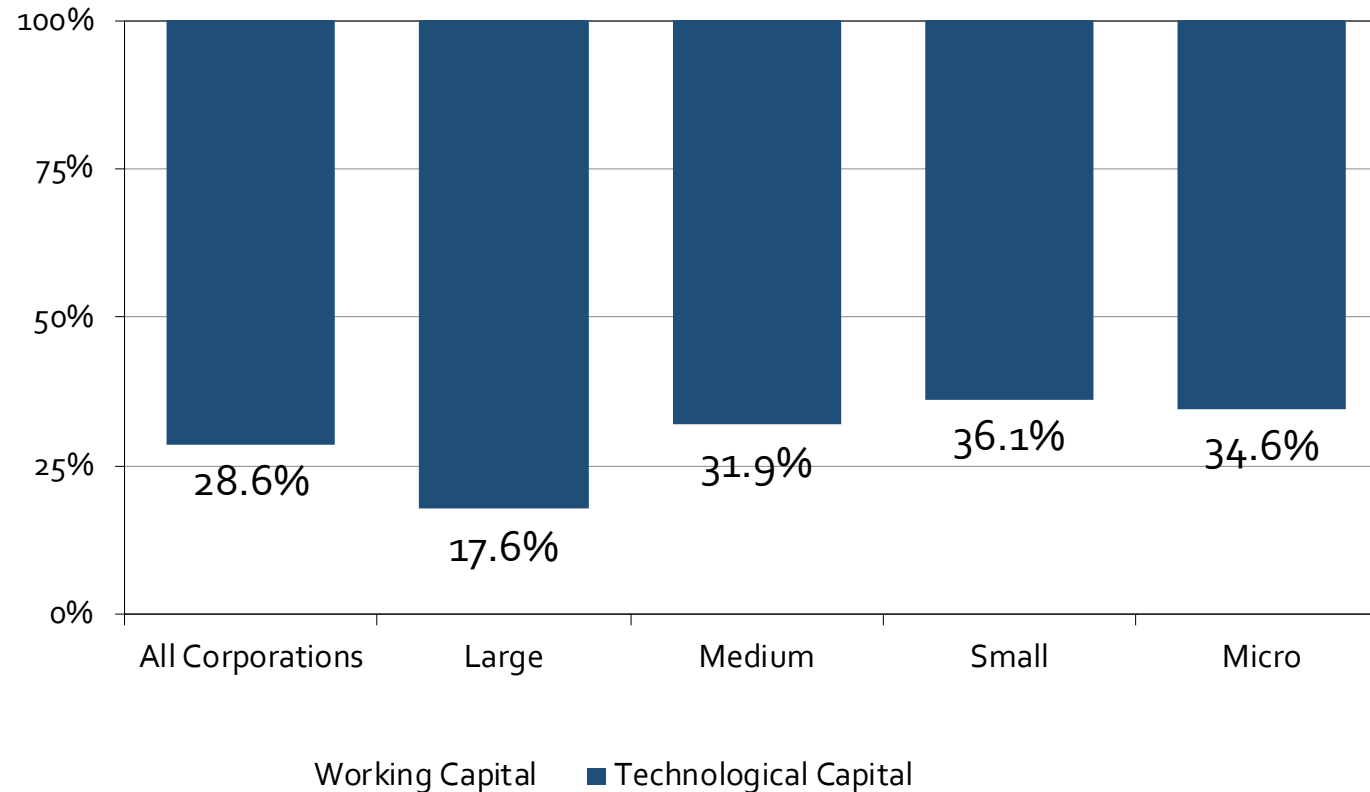
All corporations decreased capital employed between 2014 and 2018, on average. Exception to micro firms. Yet, overall capital employed in the Portuguese corporate world increased.

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2014. Own calculations. Values as thousand of euros.

# Capital Efficiency

[cash cycle & capacity]

## 2018



Capital Employed structure kept stable during '14-18, signalling better resource allocation: [1] improved cash conversion cycle; [2] higher technological productivity.

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
 Notes: Portugal, all non-financial corporations, 2018. Own calculations. Values as thousand of euros.

**Tax Burden**  
(avg. corporate rate)

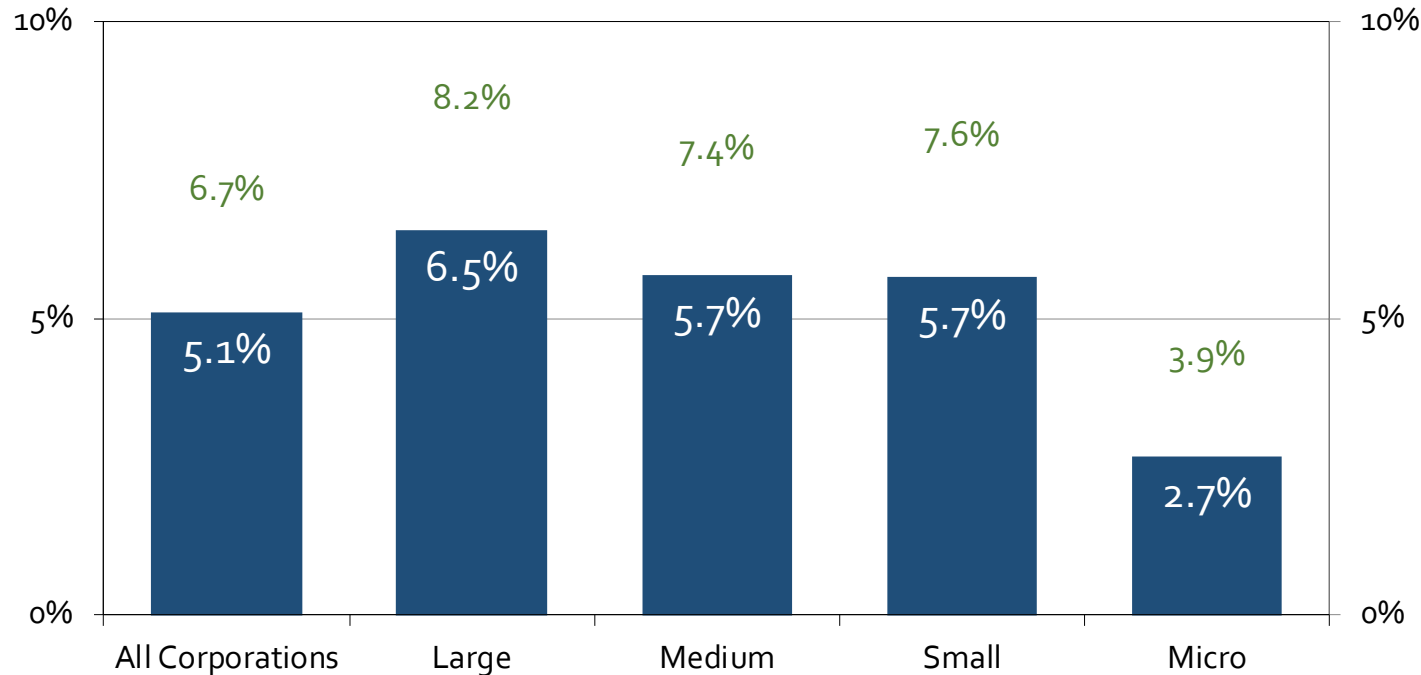
**23.8%**

**20.7%**

**23.0%**

**25.0%**

**30.7%**



Return on Investment (EBIT/Capital Employed)

■ After-Tax Return on Investment (EBIT-Taxes/Capital Employed)

# after-tax Return 2018

The after-tax return on Capital Employed increased as compared to 2014, not only because of productivity gains, but also because the tax wedge decreased.

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations. Values as thousand of euros.

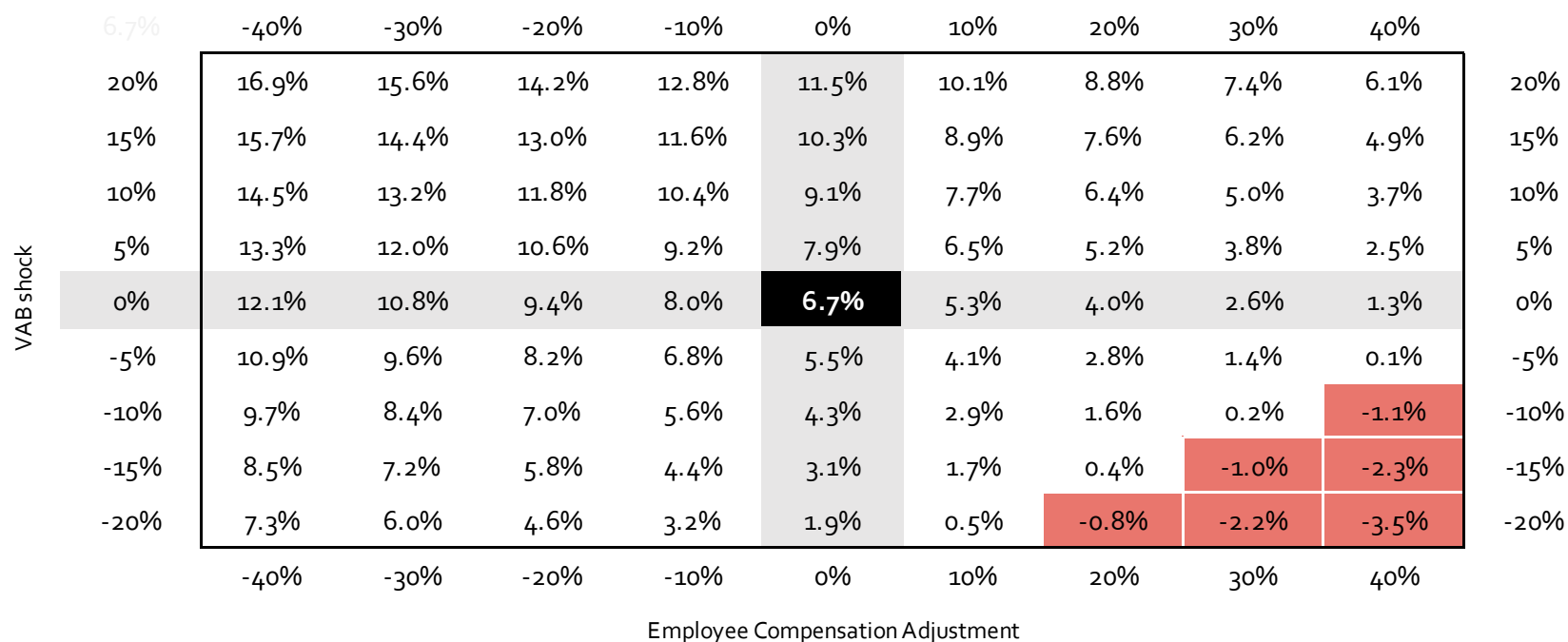
# Too Many... Too Small & Too Much Capital

despite adjustment during '14-18!



# after-COVID resilience

Returns on Investment (EBIT/Capital Employed) after a shock in production (VAB), considering mitigating circumstances (layoff and furlough schemes).



## Easily return to 2014!

**4.3%**

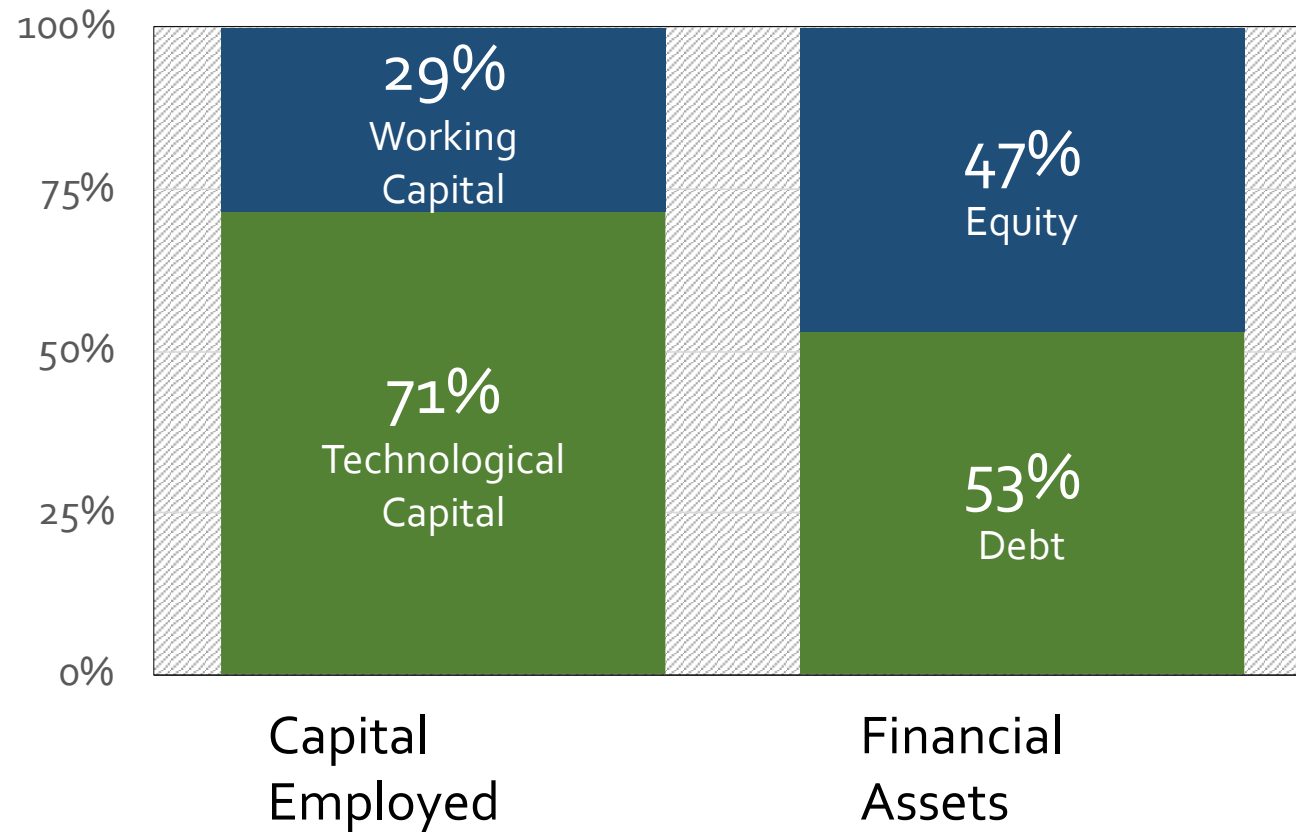
gross return on  
capital employed '14

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations.



# Funding

balance  
sheets



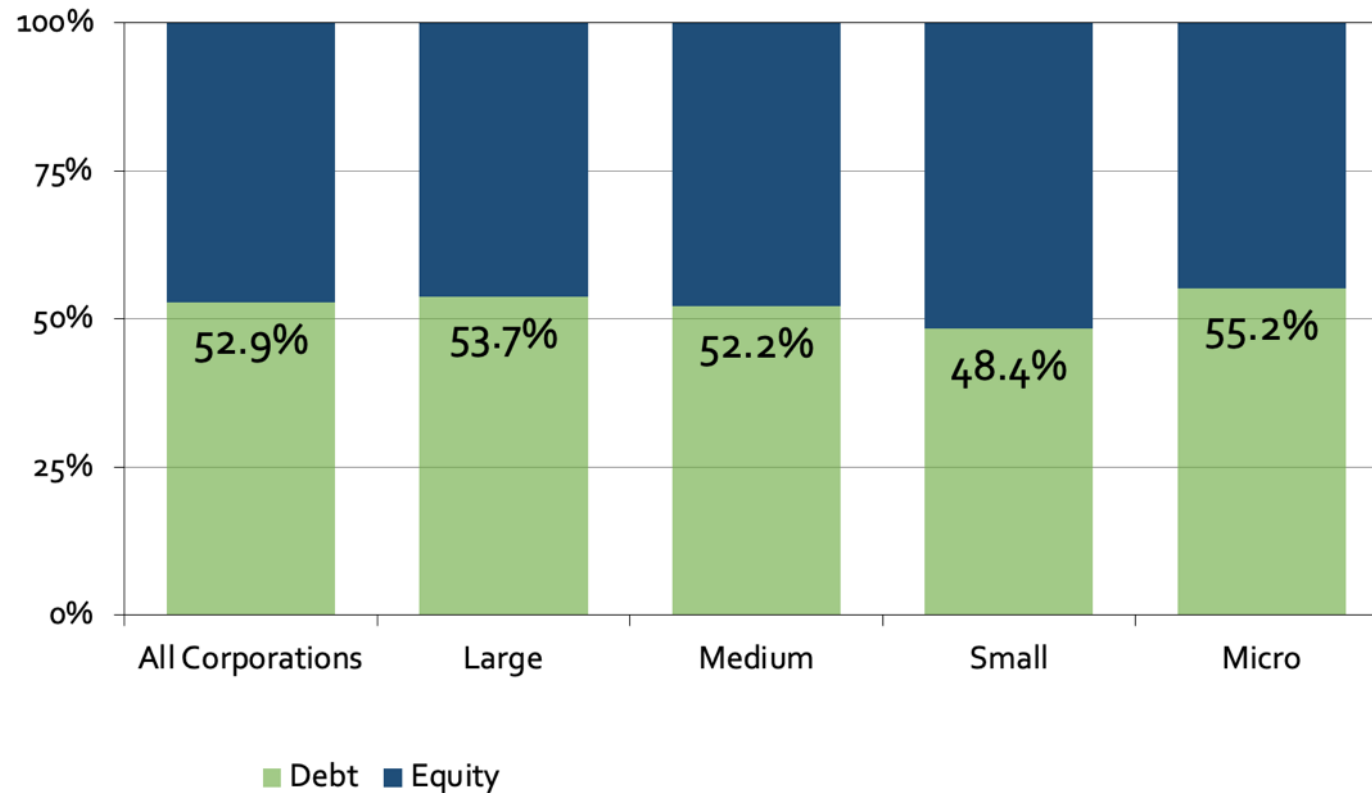
**enough  
Return?**

**5.1%**  
after corporate tax

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations. % of total assets.

# Capital financing 2018

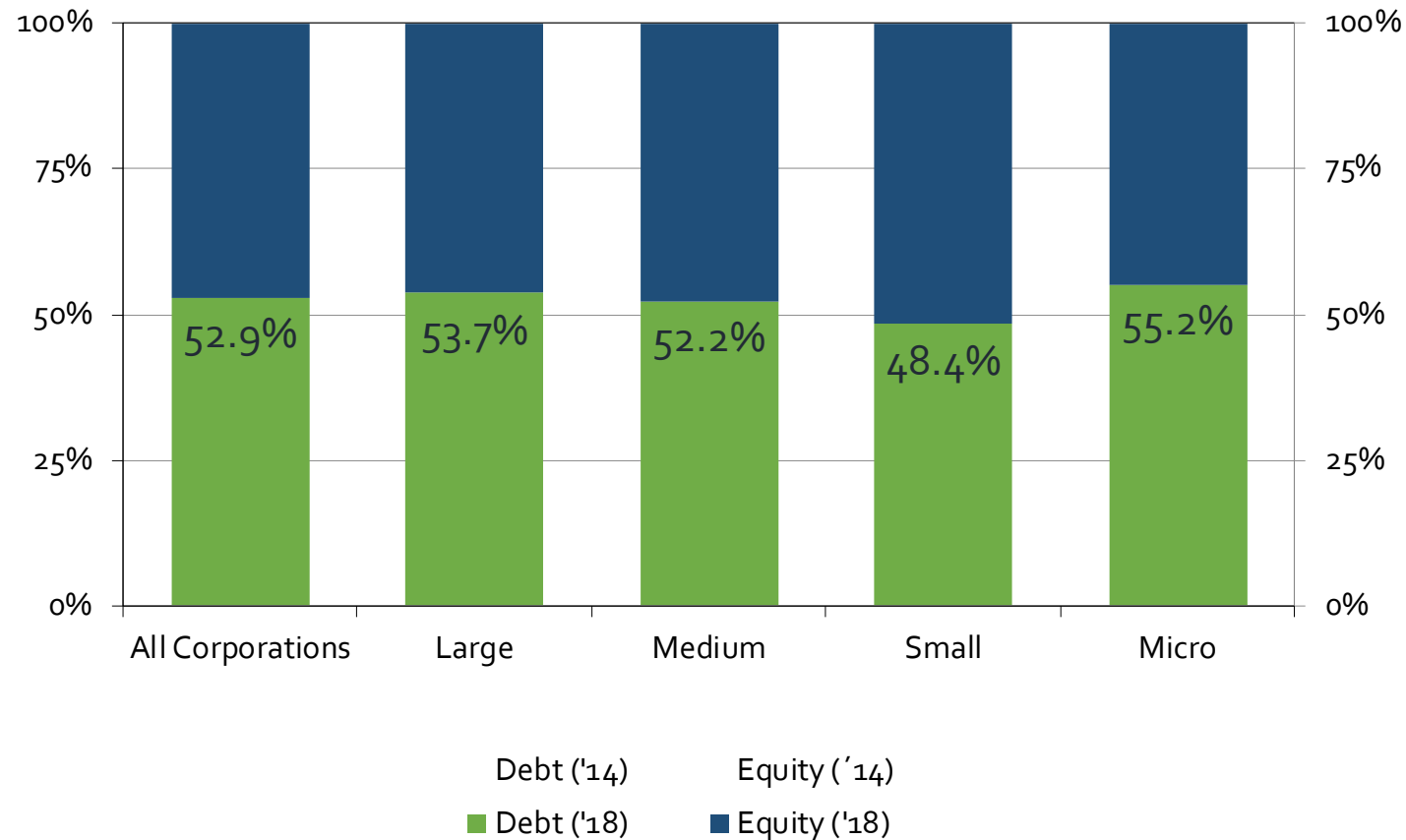
On average there is not big difference between large and small corporations regarding the structure of financing (i.e., capital structure).



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations. % of total assets.

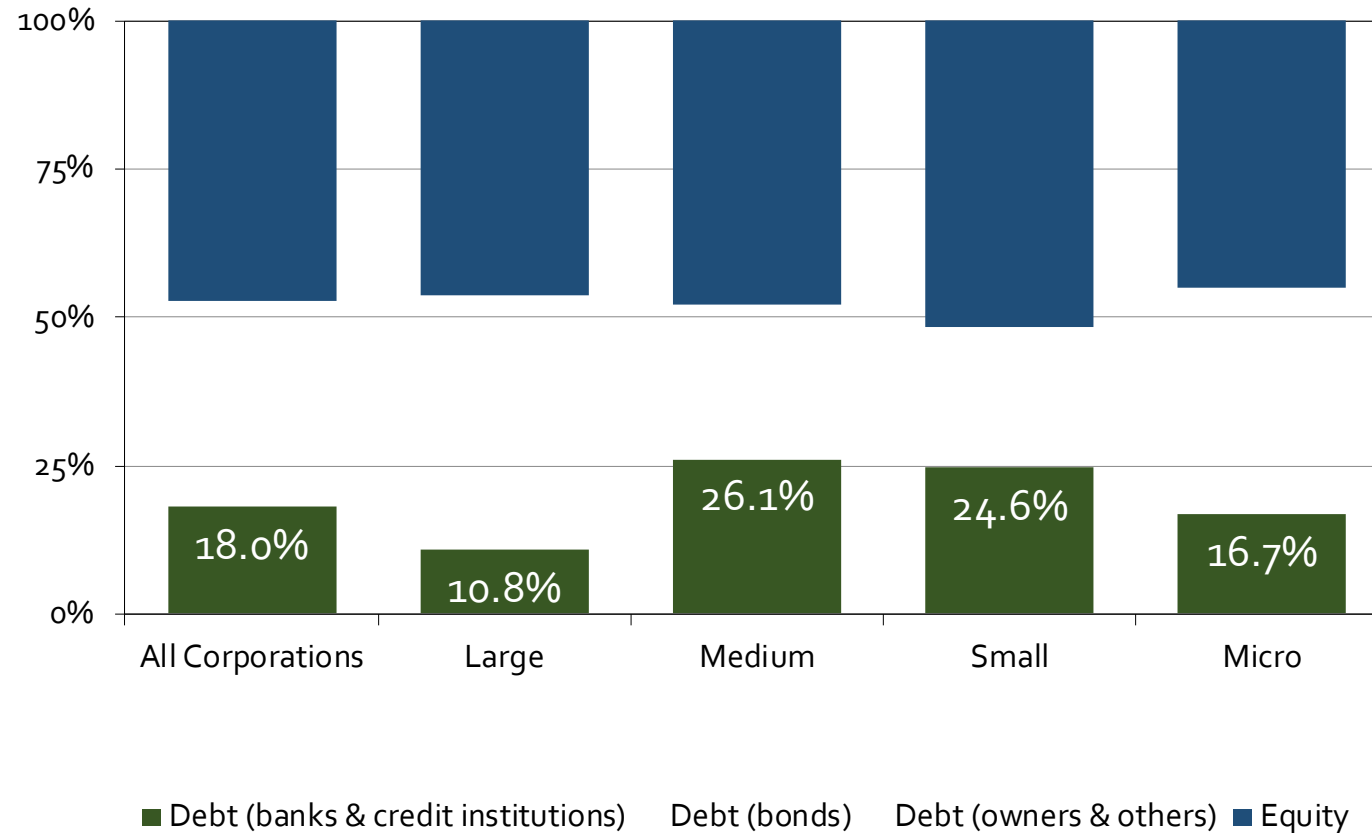
# Capital financing 2014-18

All corporations are financially more robust in 2018, as compared to 2014 (asset sales used to pay back loans and decrease financial leverage).



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations. % of total assets.

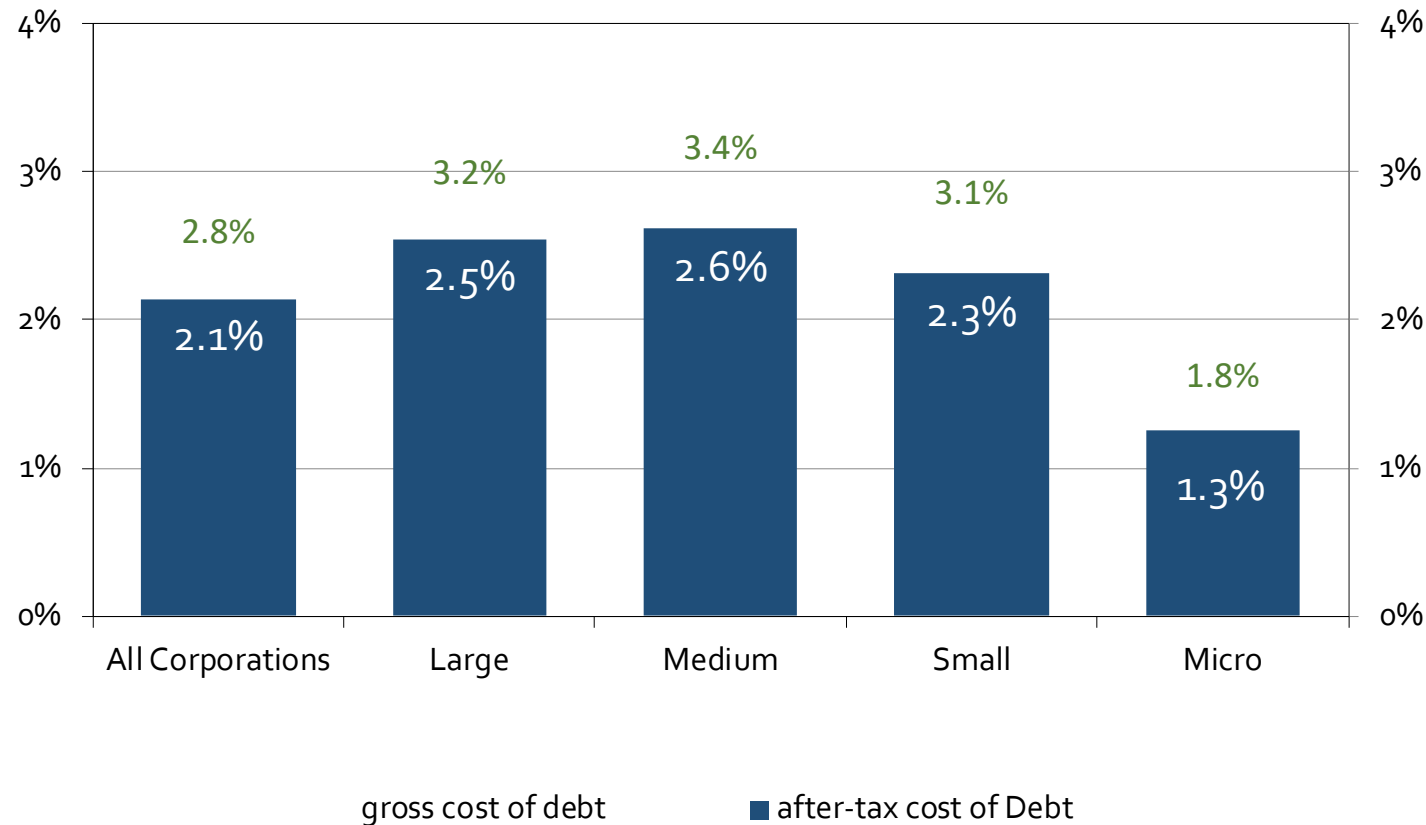
# Debt' financing 2018



Currently banks are responsible for financing less than 20% of total corporate assets (i.e., capital employed). Overall, debt contracts have an average interest rate of 3.3% (quite likely, the cost of bank loans is higher).

# cost of Debt

## 2018

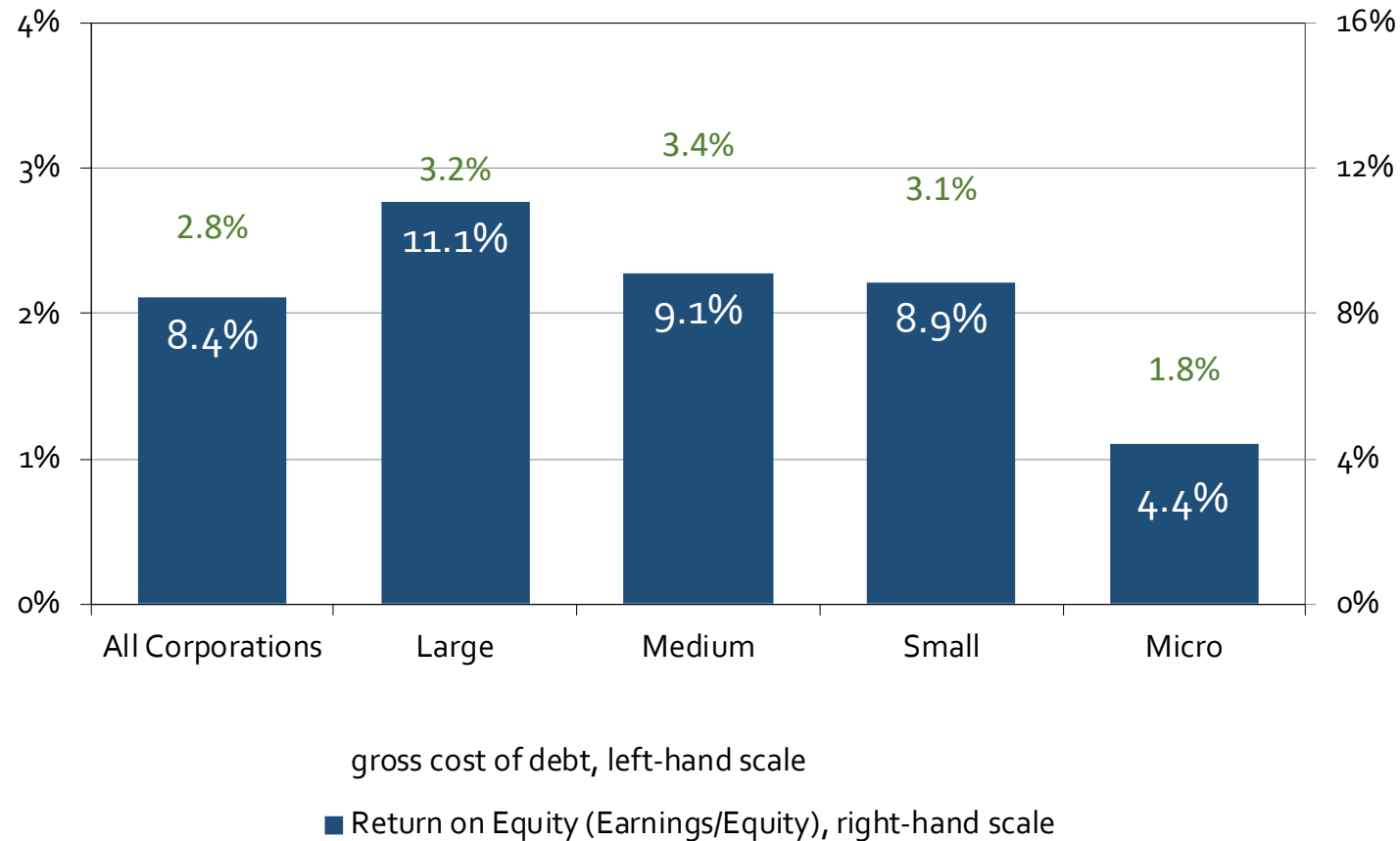


Implicit interest rates paid on debt reflect financing options available and managers' choices: small and micro corporations resort to highly collateralized debt contracts (i.e. leasing) and **borrowing from shareholders**.

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations.

# cost of Equity 2018

Available return left for equity holders is, on average 8.4%. Large corporations offer a 200bp excess return over small and medium sized corporations.



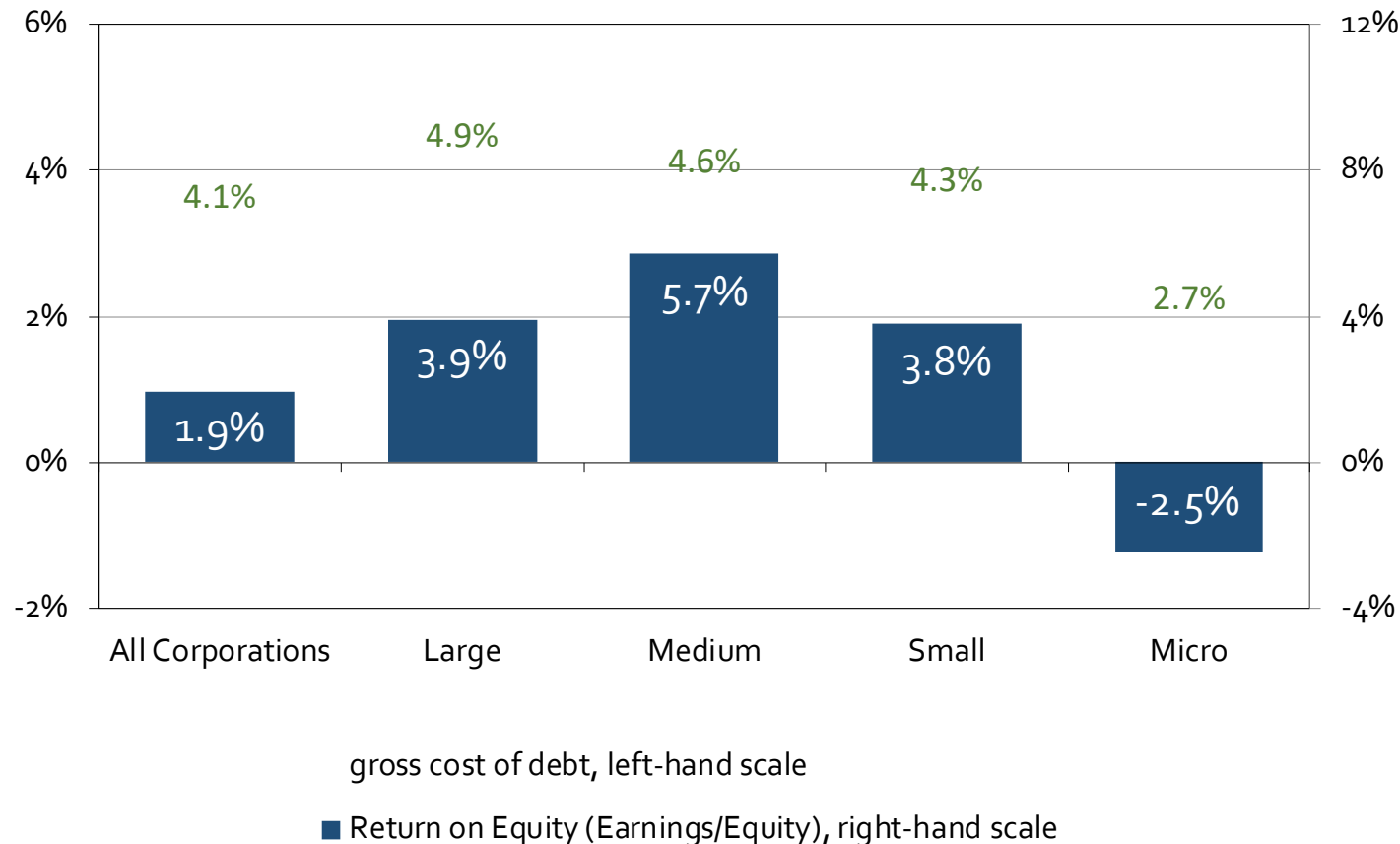
Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations.



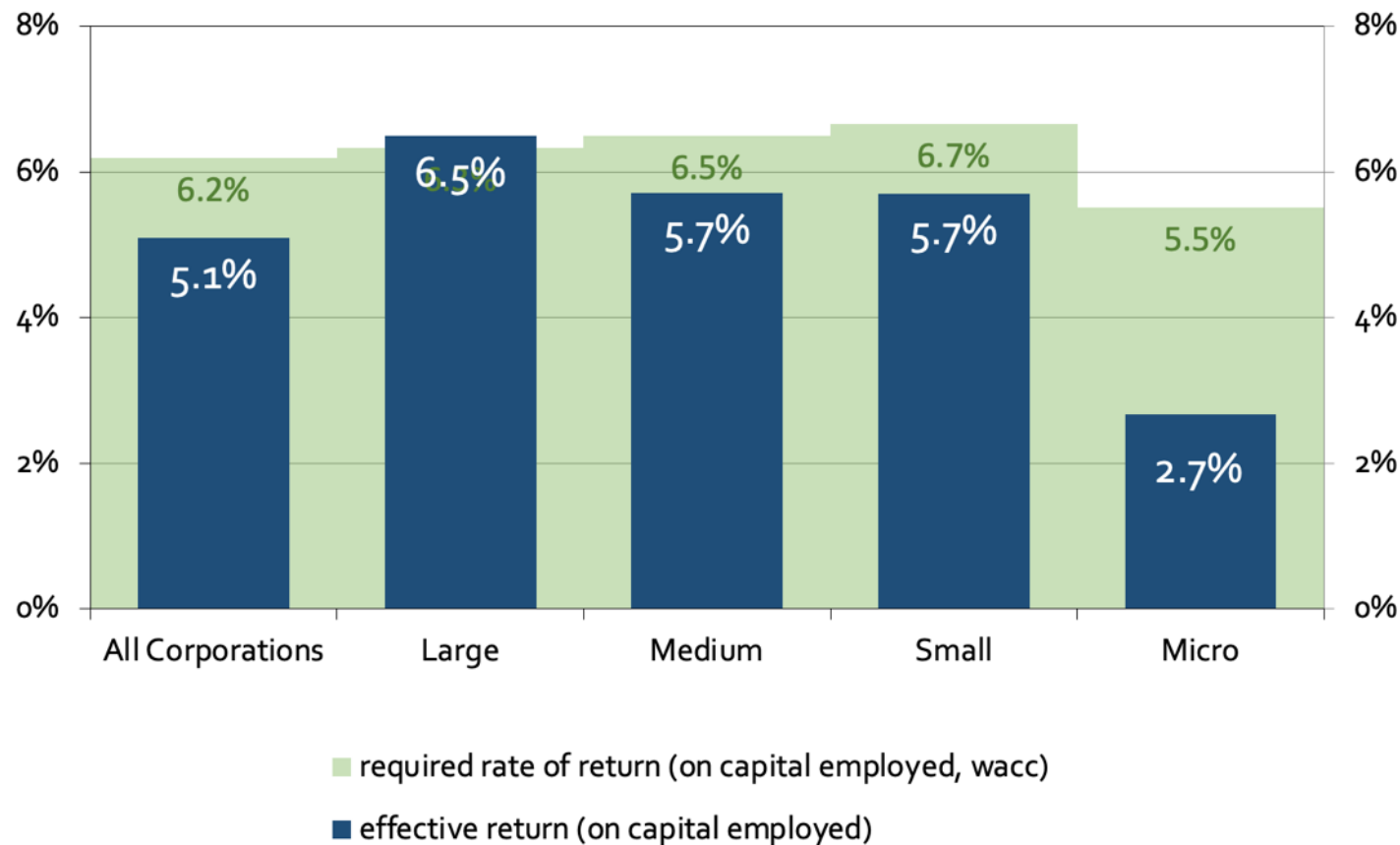
# cost of Equity

## 2014

Available return left for equity holders in 2014 was just 1.9%. High financial leverage then, not enough to offset high interest rates and low (labour and capital) productivity effects.



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
 Notes: Portugal, all non-financial corporations, 2018. Own calculations.

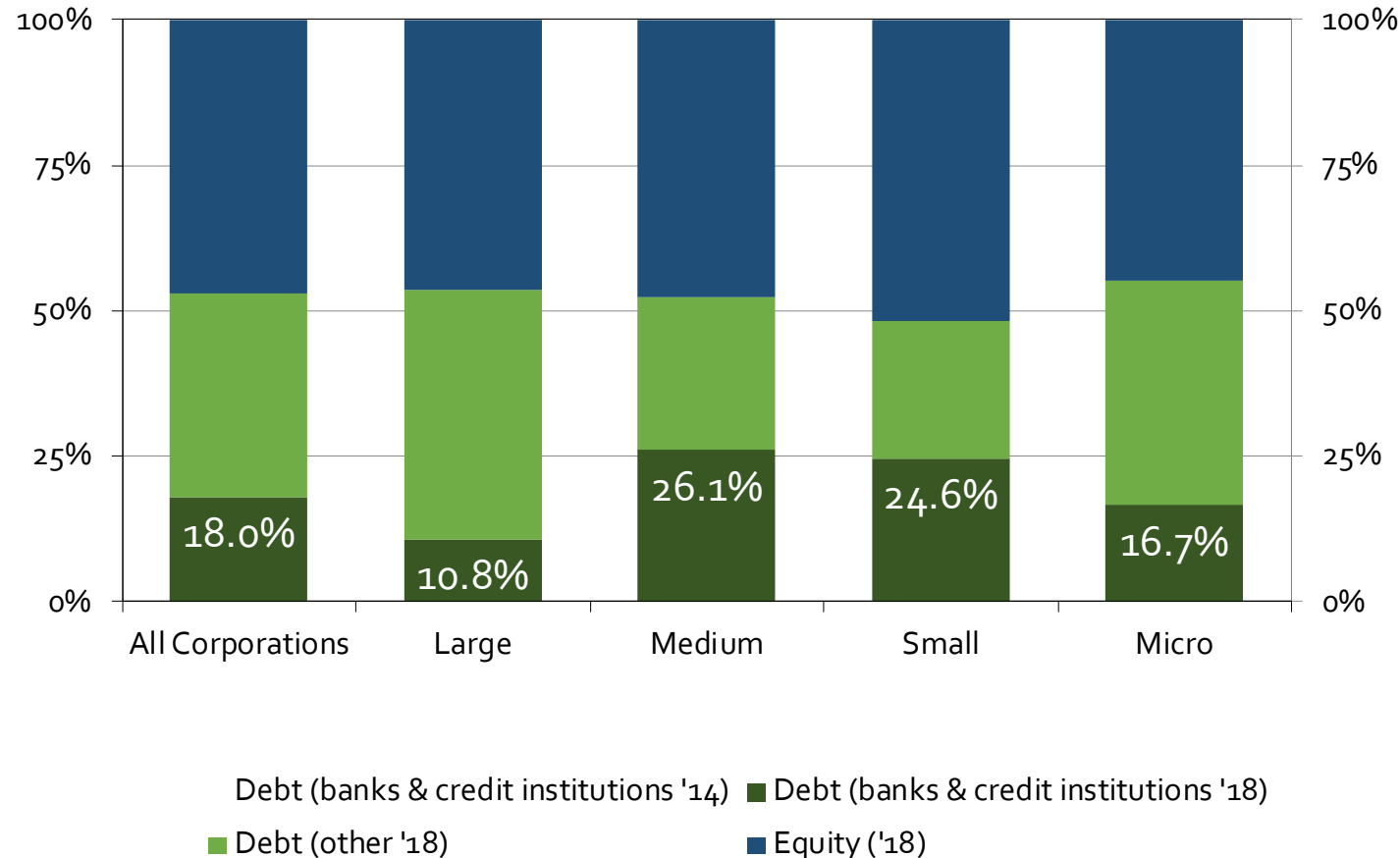


# required wacc 2018

Equity Risk Premium (ERP) for Portugal estimated to be 10% (Damodaran, 2020). Assume the average corporation beta to be 1.0 (well diversified portfolio). **Difficult for PE to invest in medium and small Portuguese corporations.**

# Banks' exposures 2014-'18

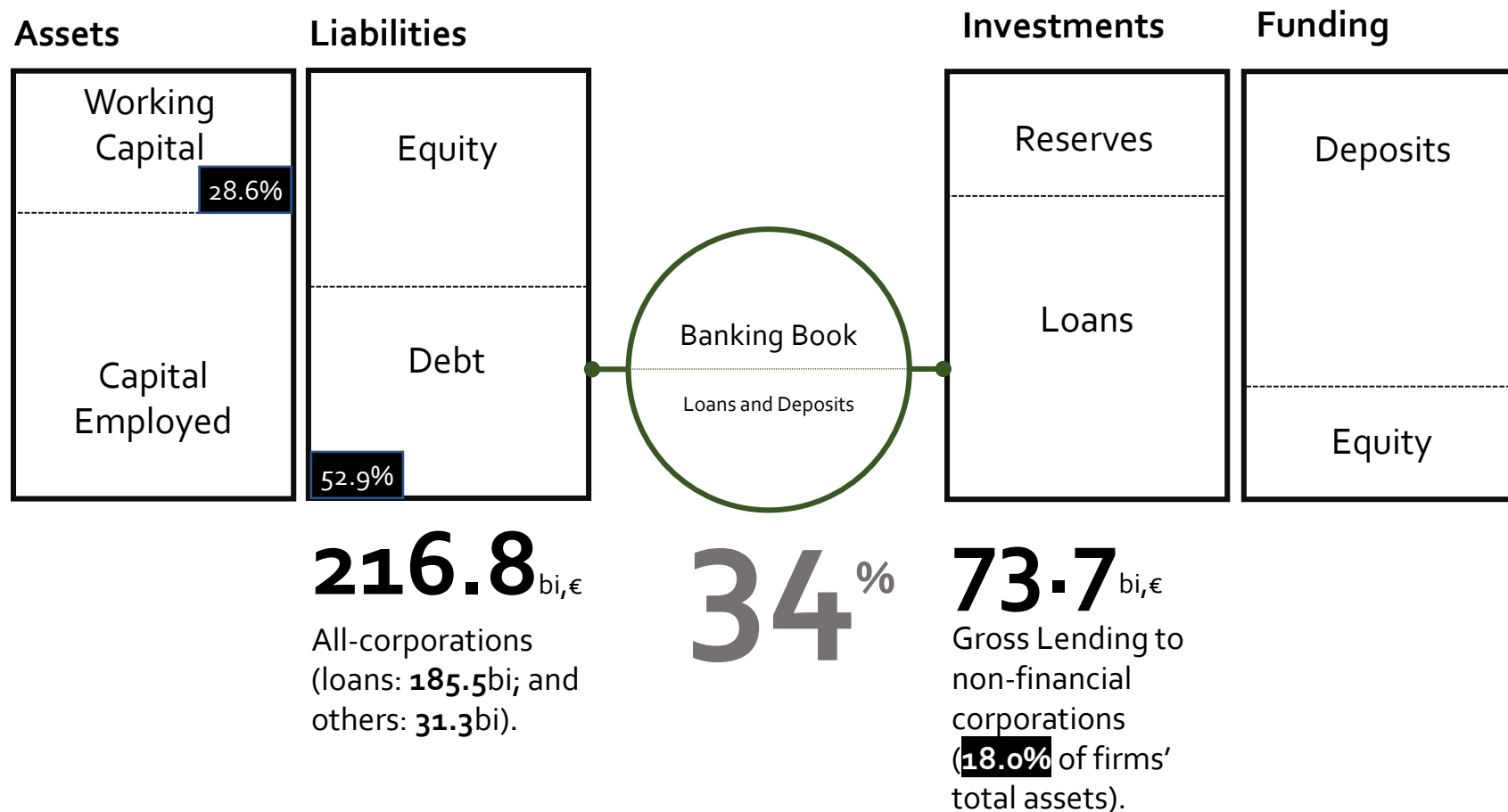
Banks in a better position than 2014. Exposures strongly reduced for medium and small enterprises: apparently, a paradox considering banks intermediation functions (pooling and screening).



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
 Notes: Portugal, all non-financial corporations, 2018. Own calculations. % of total assets.

# Financing Assets and Banks' Exposures, Portugal

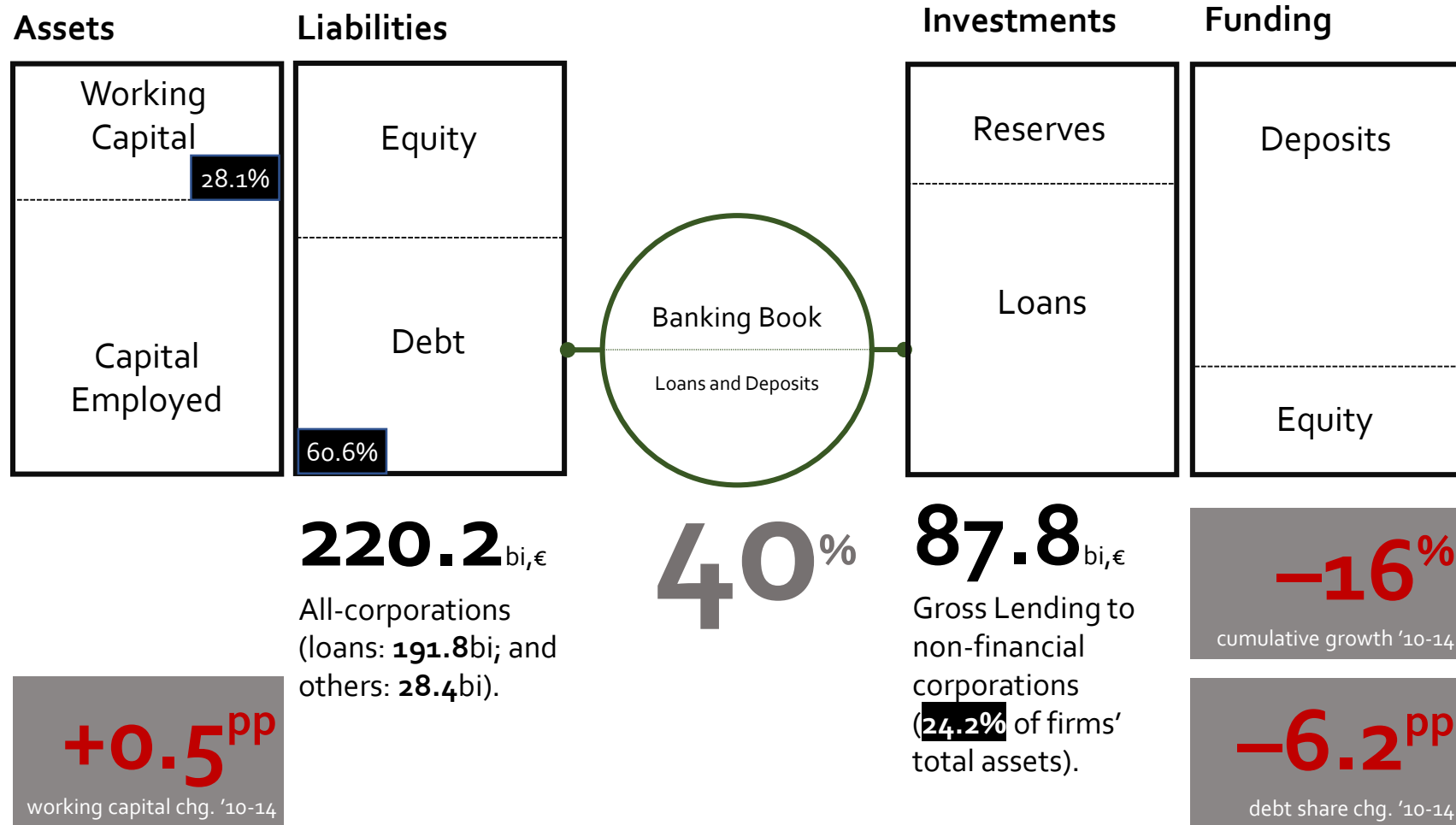
loans to corporations, 2018



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: 1bi=1000 million euros

# Financing Assets and Banks' Exposures, Portugal

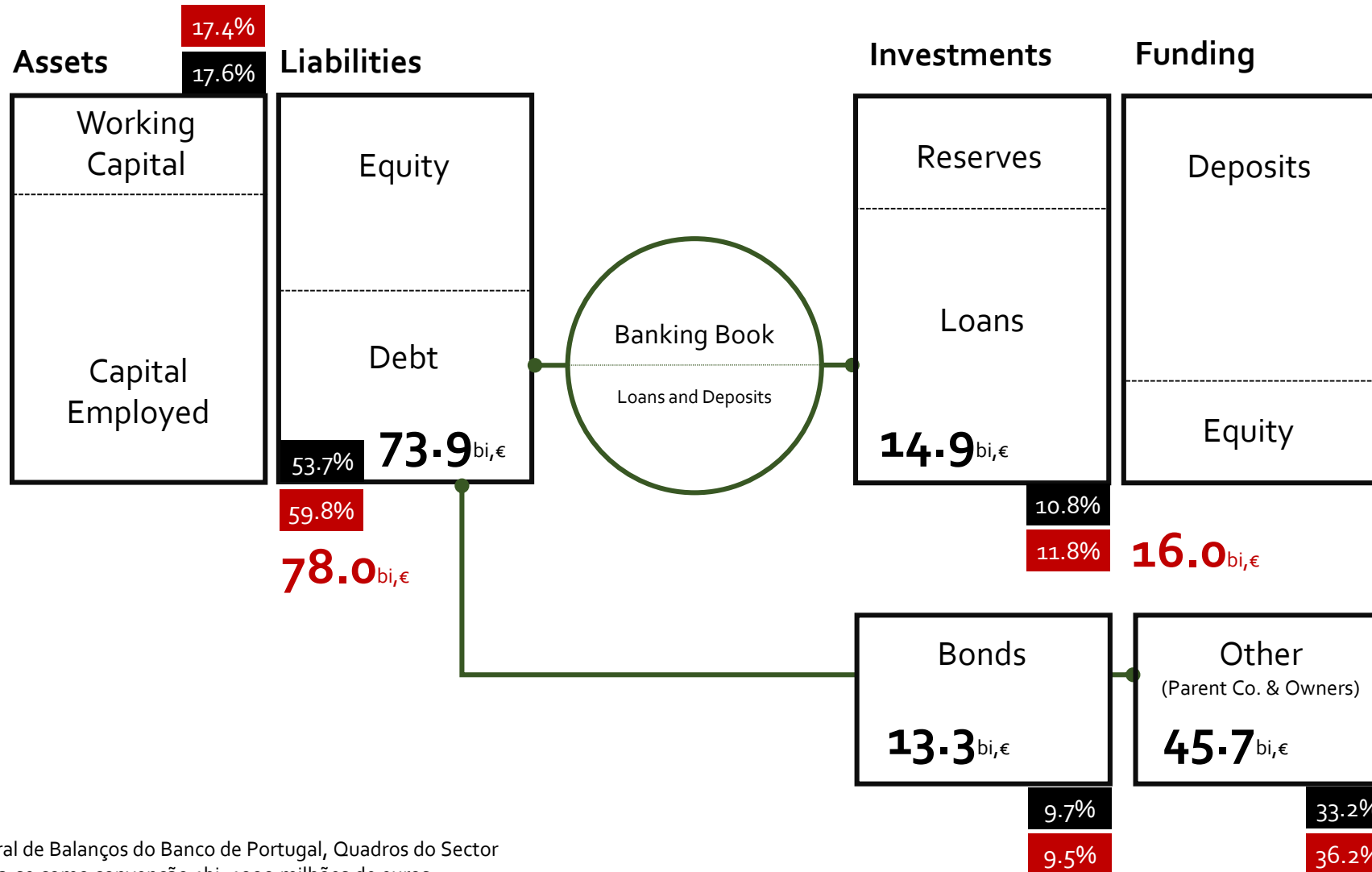
loans to corporations, 2014



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: 1bi=1000 million euros

# Financing Assets and Banks' Exposures, Portugal: large corporations

capital structure and debt holders, 2018



x.x%

**X.X** bi,€  
2018  
figures

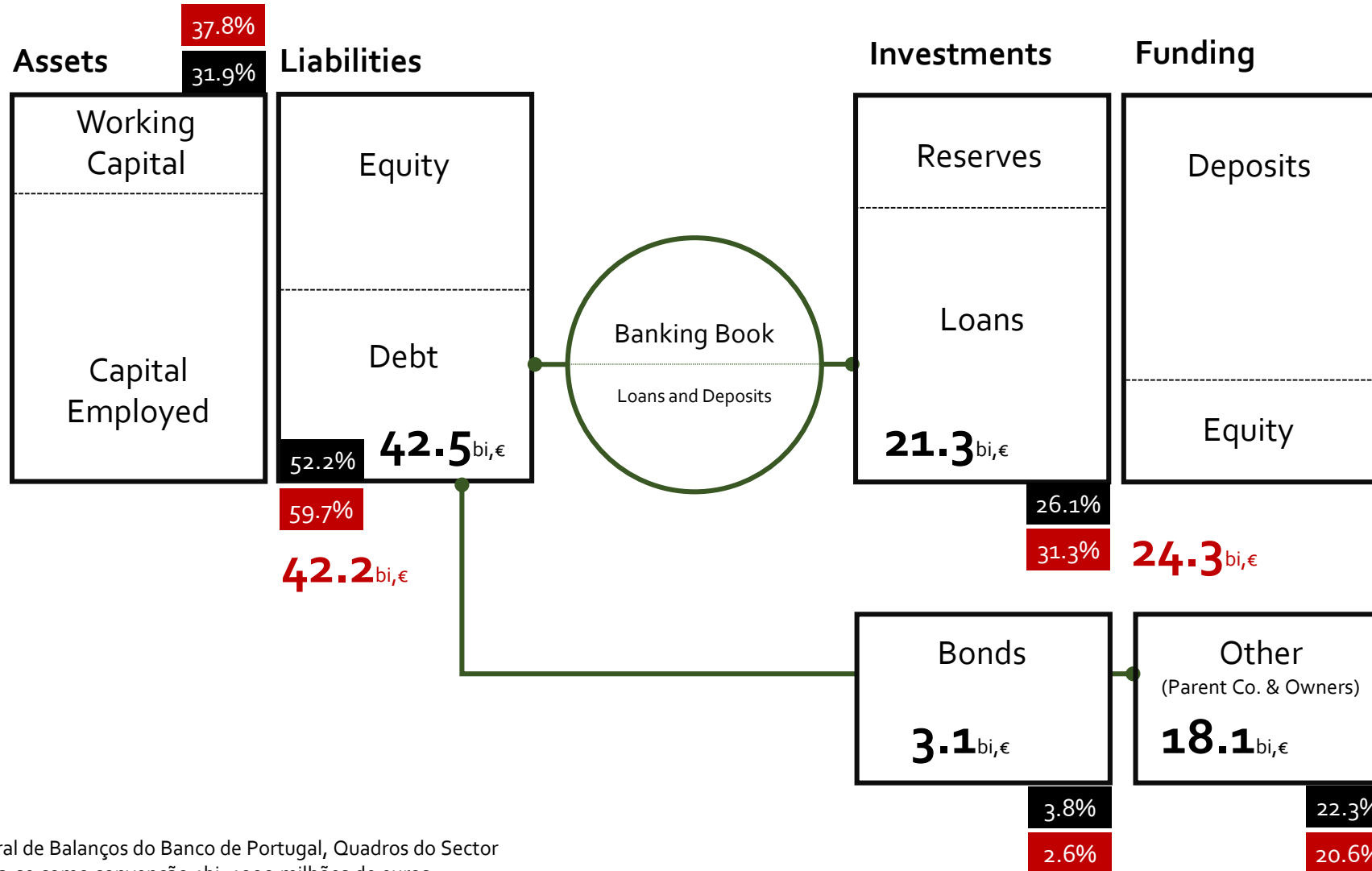
x.x%

**X.X** bi,€  
2014  
figures

Fonte: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notas: utiliza-se como convenção 1bi=1000 milhões de euros

# Financing Assets and Banks' Exposures, Portugal: **medium-sized corporations**

capital structure and debt holders, 2018



x.x%

**X.X** bi,€  
2018  
figures

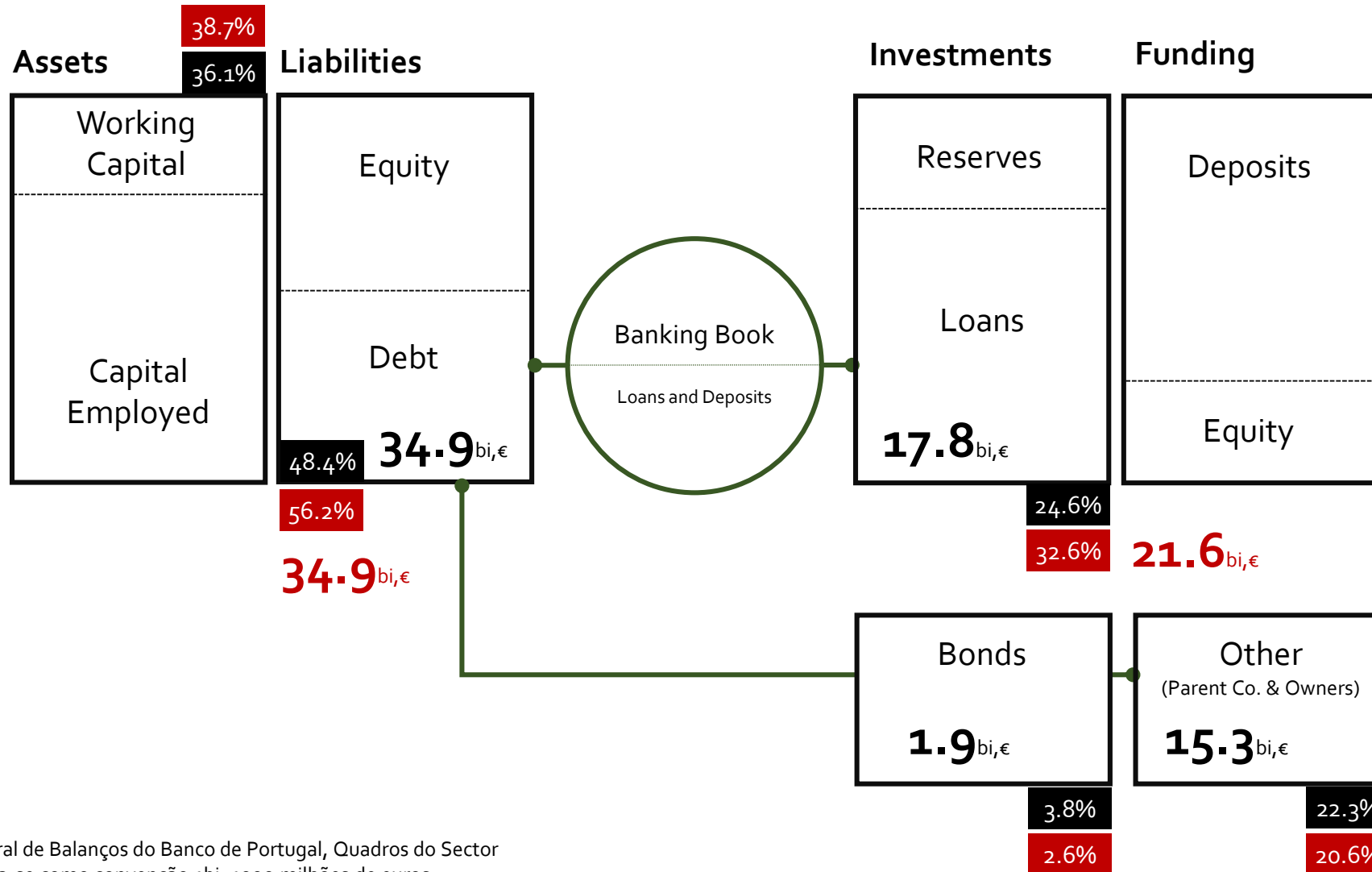
x.x%

**X.X** bi,€  
2014  
figures

Fonte: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notas: utiliza-se como convenção 1bi=1000 milhões de euros

# Financing Assets and Banks' Exposures, Portugal: **small-sized corporations**

capital structure and debt holders, 2018



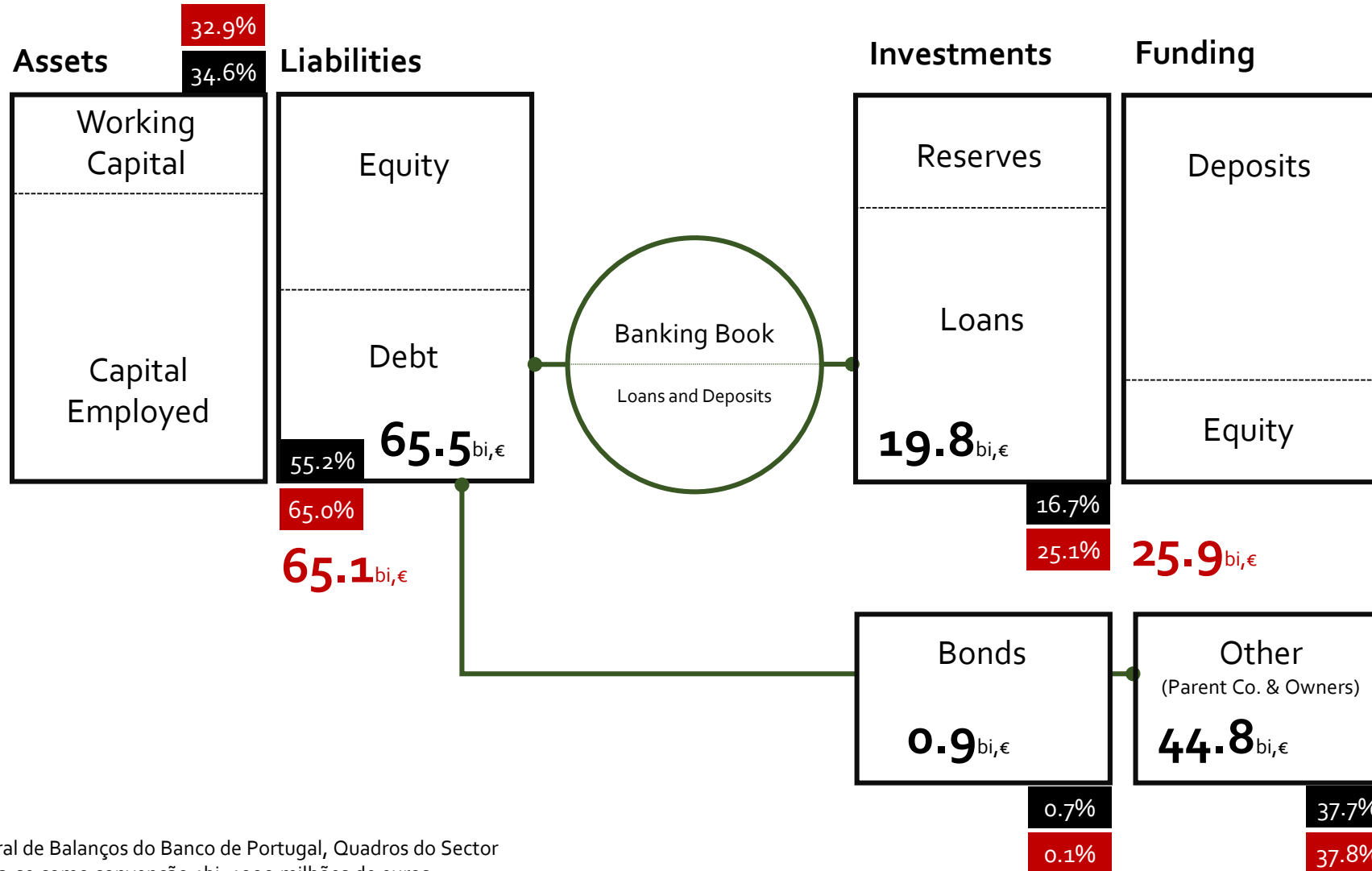
Fonte: Central de Balanços do Banco de Portugal, Quadros do Sector  
 Notas: utiliza-se como convenção 1bi=1000 milhões de euros

x.x%  
**X.X** bi,€  
 2018  
 figures  
 x.x%  
**X.X** bi,€  
 2014  
 figures



# Financing Assets and Banks' Exposures, Portugal: **micro corporations**

capital structure and debt holders, 2018

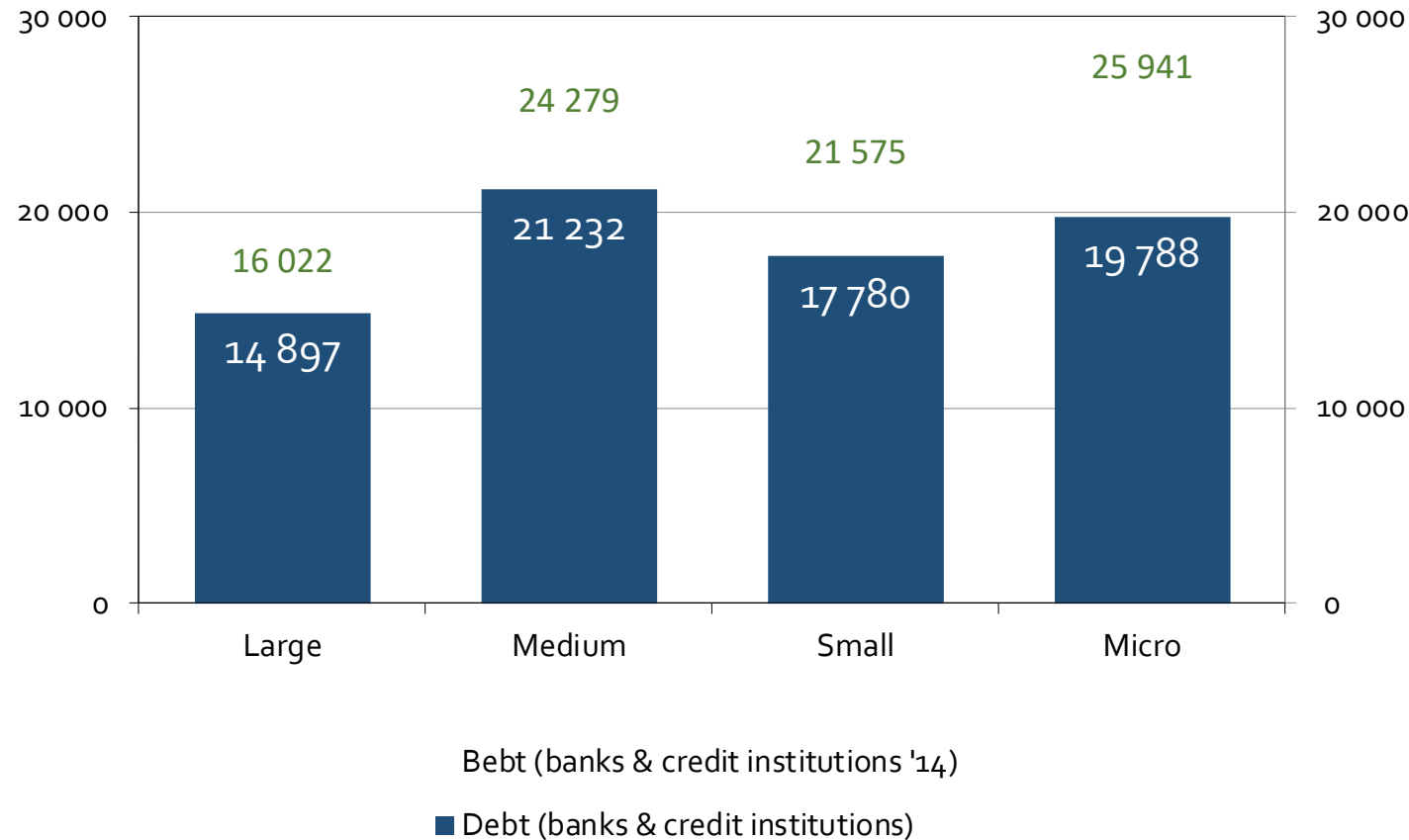


Fonte: Central de Balanços do Banco de Portugal, Quadros do Sector  
 Notas: utiliza-se como convenção 1bi=1000 milhões de euros

x.x%  
**X.X**<sub>bi,€</sub>  
 2018  
 figures  
 x.x%  
**X.X**<sub>bi,€</sub>  
 2014  
 figures

# Banks' exposures 2018

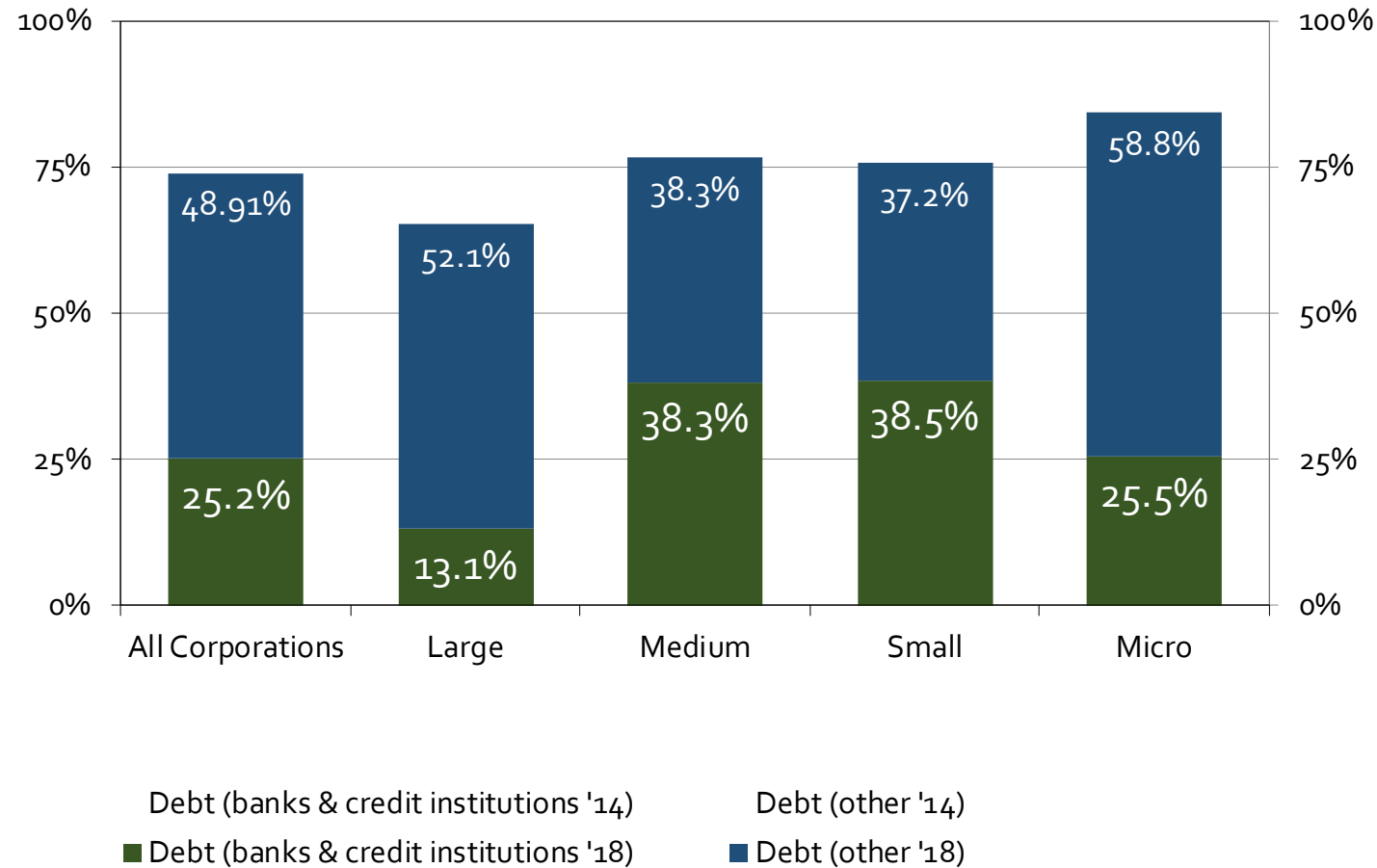
Overall banks decreased lending to corporations in Portugal, therefore still shielded from economic downturn, except if compelled to build up their exposures (moratorium period)...



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations. Values as of million euros.

# Banks' collaterals 2018

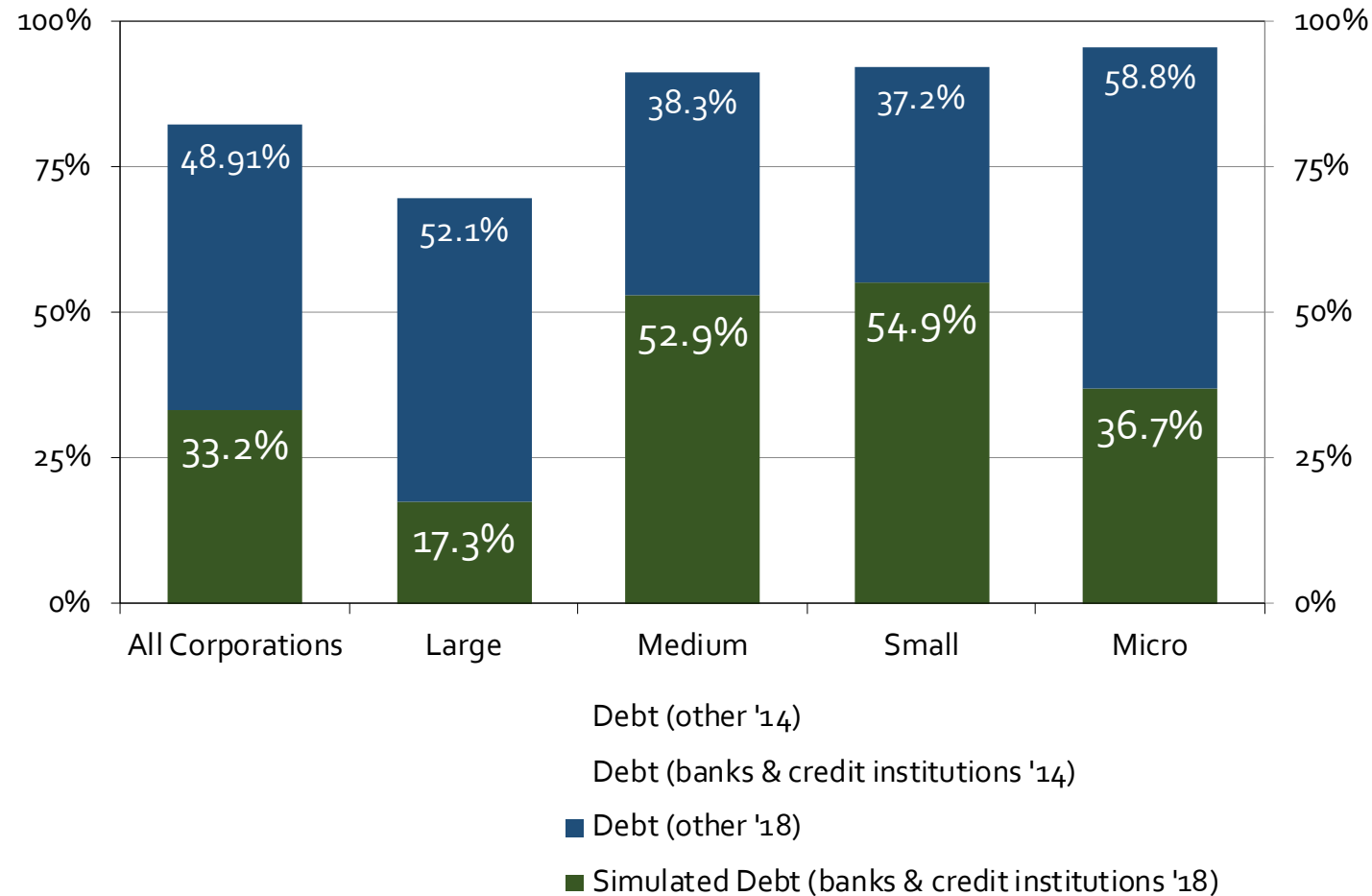
Considering fixed assets only, debt is less than 80% of its accounting value, and 75% for medium and small sized corporations. Yet, banks' exposures do not exceed 40% of its value.



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
 Notes: Portugal, all non-financial corporations, 2018. Own calculations. % Fixed Assets.

# Banks' potential risks 2018

What if we restore the 2014 level of bank loans per firm, assuming 2018 fixed assets? From a "real estate value" perspective, things do not look much different now...



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
 Notes: Portugal, all non-financial corporations, 2018. Own calculations. % Fixed Assets.

# after-COVID resilience

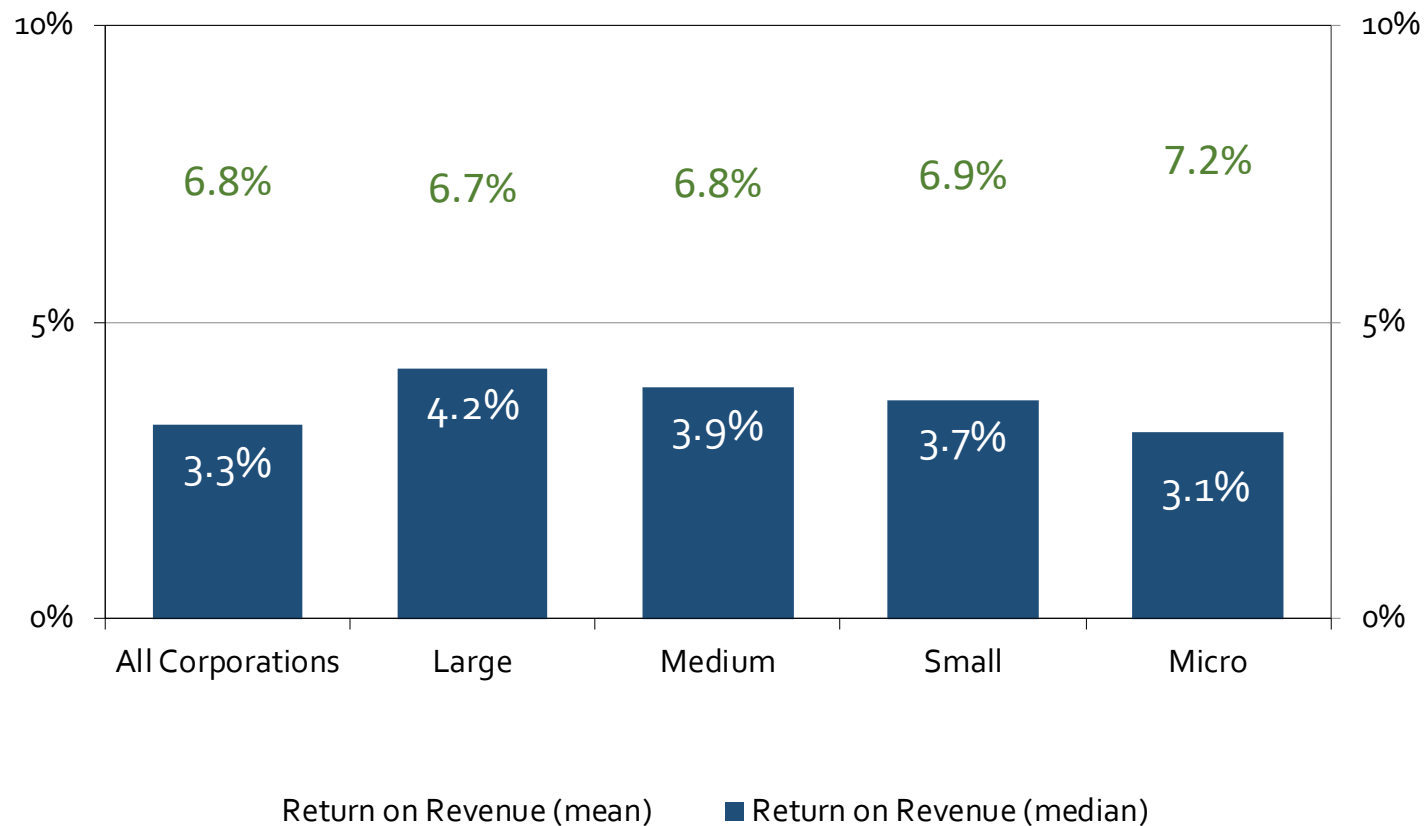
Returns on Equity (Earnings/Equity) after a shock in production (VAB), considering mitigating circumstances (layoff and furlough schemes) and debt contractual obligations.

		-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%		
VAB shock	8.4%											
	20%	24.9%	22.8%	20.6%	18.4%	16.2%	14.0%	11.8%	9.6%	7.4%	20%	
	15%	23.0%	20.8%	18.6%	16.4%	14.2%	12.1%	9.9%	7.7%	5.5%	15%	
	10%	21.1%	18.9%	16.7%	14.5%	12.3%	10.1%	7.9%	5.7%	3.5%	10%	
	5%	19.1%	16.9%	14.7%	12.6%	10.4%	8.2%	6.0%	3.8%	1.6%	5%	
	0%	17.2%	15.0%	12.8%	10.6%	<b>8.4%</b>	6.2%	4.0%	1.9%	-0.3%	0%	
	-5%	15.2%	13.1%	10.9%	8.7%	6.5%	4.3%	2.1%	-0.1%	-2.3%	-5%	
	-10%	13.3%	11.1%	8.9%	6.7%	4.5%	2.4%	0.2%	-2.0%	-4.2%	-10%	
	-15%	11.4%	9.2%	7.0%	4.8%	2.6%	0.4%	-1.8%	-4.0%	-6.2%	-15%	
-20%	9.4%	7.2%	5.0%	2.8%	0.7%	-1.5%	-3.7%	-5.9%	-8.1%	-20%		
		-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%		
Employee Compensation Adjustment												

1.9%

average return on equity '14

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations.



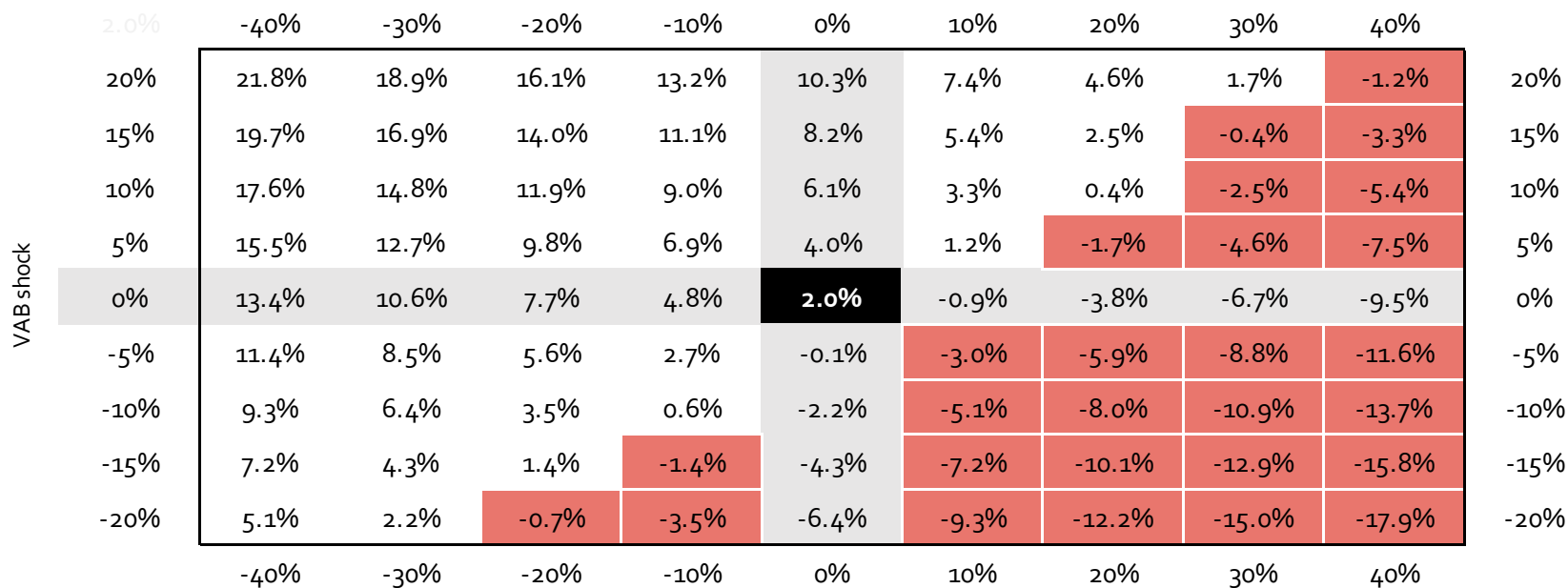
# Bottom 50 potential risks 2018

There are more than **220 thousand corporations** – half of the Portuguese corporate world – with a return (EBIT as % revenues) to financing less than 3.3%, just enough to pay debt holders!

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations. % Fixed Assets.

# after-COVID resilience

Returns on Equity (Earnings/Equity) after a shock in production (VAB), considering mitigating circumstances (layoff and furlough schemes) and debt contractual obligations.



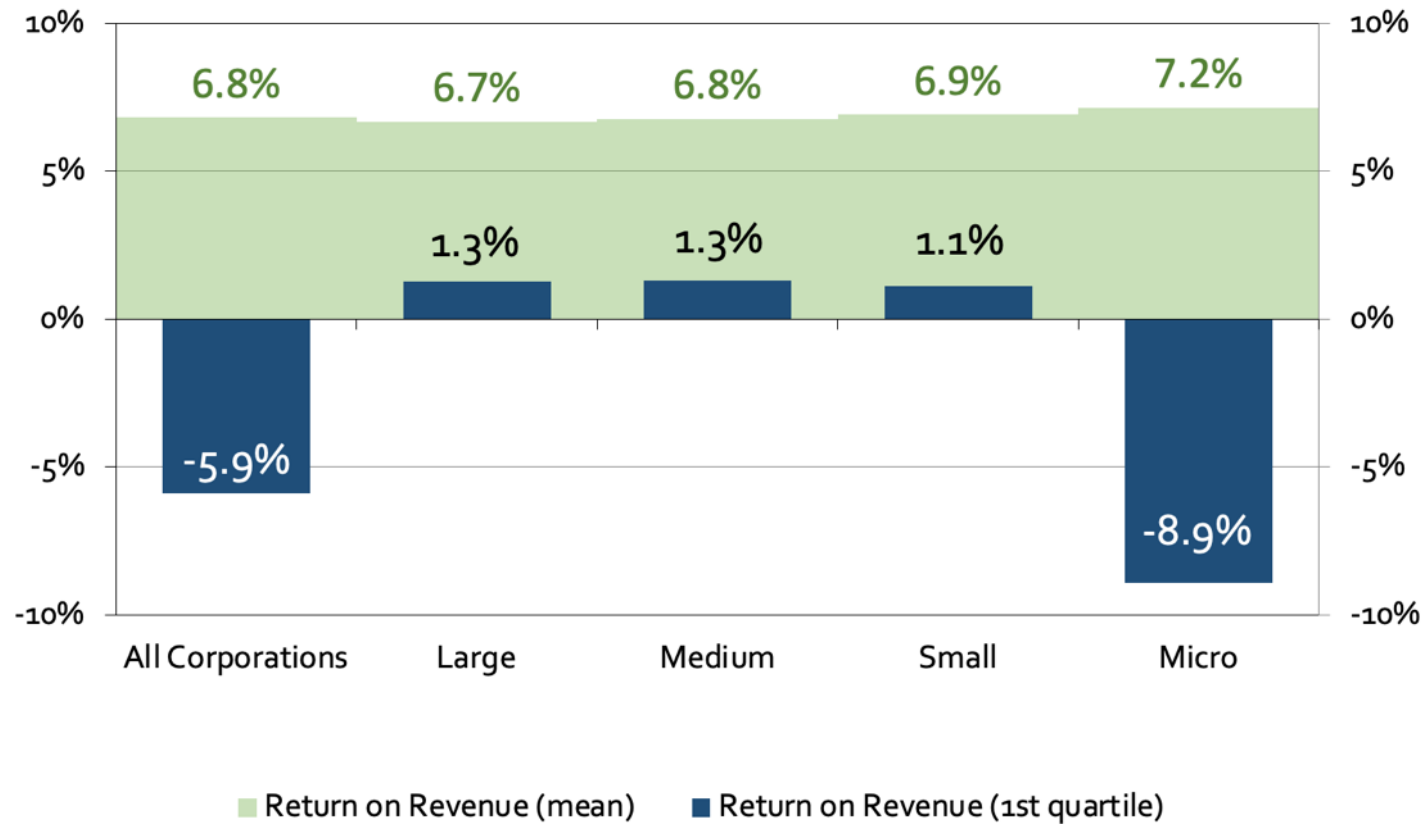
Bottom **50**  
potential risks

**220<sup>k</sup>**  
firms

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations.

# Bottom 25 potential risks 2018

There are more than **110 thousand corporations** with a negative return (EBIT as % revenues) to financing!



Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
 Notes: Portugal, all non-financial corporations, 2018. Own calculations. % Fixed Assets.



# after-COVID resilience

Returns on Equity (Earnings/Equity) after a shock in production (VAB), considering mitigating circumstances (layoff and furlough schemes) and debt contractual obligations.

		-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%		
VAB shock	20%	1.4%	-1.5%	-4.3%	-7.2%	-10.1%	-12.9%	-15.8%	-18.7%	-21.6%	20%	
	15%	0.2%	-2.7%	-5.6%	-8.4%	-11.3%	-14.2%	-17.1%	-19.9%	-22.8%	15%	
	10%	-1.1%	-3.9%	-6.8%	-9.7%	-12.6%	-15.4%	-18.3%	-21.2%	-24.1%	10%	
	5%	-2.3%	-5.2%	-8.1%	-10.9%	-13.8%	-16.7%	-19.6%	-22.4%	-25.3%	5%	
	0%	-3.5%	-6.4%	-9.3%	-12.2%	<b>-15.0%</b>	-17.9%	-20.8%	-23.7%	-26.5%	0%	
	-5%	-4.8%	-7.7%	-10.5%	-13.4%	-16.3%	-19.2%	-22.0%	-24.9%	-27.8%	-5%	
	-10%	-6.0%	-8.9%	-11.8%	-14.7%	-17.5%	-20.4%	-23.3%	-26.2%	-29.0%	-10%	
	-15%	-7.3%	-10.1%	-13.0%	-15.9%	-18.8%	-21.6%	-24.5%	-27.4%	-30.3%	-15%	
	-20%	-8.5%	-11.4%	-14.3%	-17.1%	-20.0%	-22.9%	-25.8%	-28.6%	-31.5%	-20%	
		-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%		

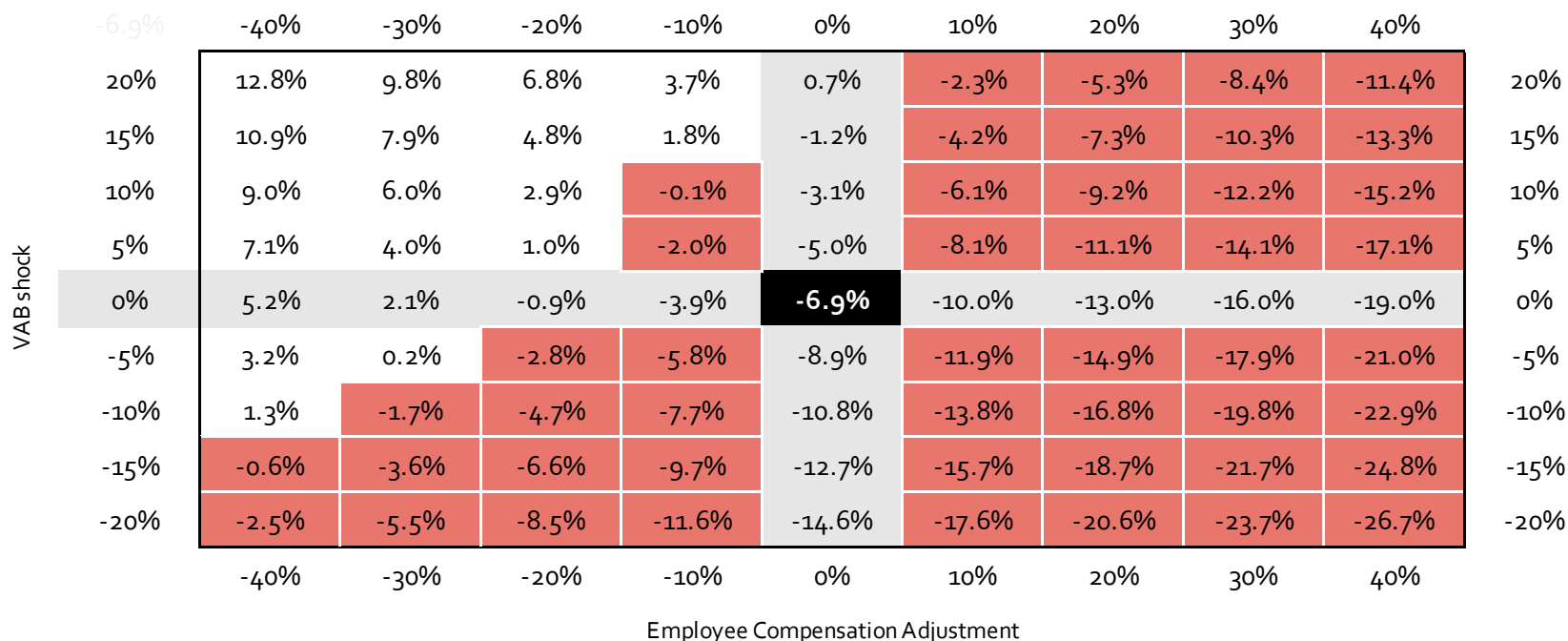
Bottom **25** potential risks

**110<sup>k</sup>**  
firms

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018. Own calculations.

# after-COVID resilience

Returns on Equity (Earnings/Equity) after a shock in production (VAB), considering mitigating circumstances (layoff and furlough schemes) and debt contractual obligations.



Bottom **25** potential risks

**300**  
large corporations!

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, large non-financial corporations, 2018. Own calculations.

# after-COVID resilience

Returns on Equity (Earnings/Equity) after a shock in production (VAB), considering mitigating circumstances (layoff and furlough schemes) and debt contractual obligations.

		-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%		
VAB shock	-13.3%											
	20%	-3.2%	-5.1%	-7.0%	-8.9%	-10.8%	-12.7%	-14.6%	-16.5%	-18.4%	20%	
	15%	-3.9%	-5.8%	-7.7%	-9.6%	-11.5%	-13.4%	-15.3%	-17.2%	-19.1%	15%	
	10%	-4.5%	-6.4%	-8.3%	-10.2%	-12.1%	-14.0%	-15.9%	-17.8%	-19.7%	10%	
	5%	-5.1%	-7.0%	-8.9%	-10.8%	-12.7%	-14.6%	-16.5%	-18.4%	-20.3%	5%	
	0%	-5.7%	-7.6%	-9.5%	-11.4%	<b>-13.3%</b>	-15.2%	-17.1%	-19.0%	-20.9%	0%	
	-5%	-6.4%	-8.3%	-10.2%	-12.1%	-14.0%	-15.9%	-17.8%	-19.7%	-21.6%	-5%	
	-10%	-7.0%	-8.9%	-10.8%	-12.7%	-14.6%	-16.5%	-18.4%	-20.3%	-22.2%	-10%	
	-15%	-7.6%	-9.5%	-11.4%	-13.3%	-15.2%	-17.1%	-19.0%	-20.9%	-22.8%	-15%	
-20%	-8.2%	-10.1%	-12.0%	-13.9%	-15.8%	-17.7%	-19.6%	-21.5%	-23.4%	-20%		
		-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%		

Bottom **25**  
potential risks

**100k**  
micro  
corporations!

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, large non-financial corporations, 2018. Own calculations.

# enterprise classification

Enterprise category	Headcount: Annual work unit (AWU)	Annual turnover, EUR	Annual balance sheet total, EUR
Medium enterprise	< 250	≤ 50 million	≤ 43 million
Small enterprise	< 50	≤ 10 million	≤ 10 million
Micro enterprise	≤ 10	≤ 2 million	≤ 2 million

Source: European Commission (2005).

	Number of employees		Annual Turnover		Employed Capital	
	2018	2014	2018	2014	2018	2014
All Corporations	6.8	6.3	0.871	0.777	0.913	0.895
Large	750.2	701.5	137.056	136.841	114.423	132.938
Medium	88.9	89.0	12.701	12.009	11.923	12.506
Small	18.4	18.3	1.871	1.817	1.744	1.757
Micro	2.0	2.0	0.155	0.134	0.297	0.275

Source: Central de Balanços do Banco de Portugal, Quadros do Sector  
Notes: Portugal, all non-financial corporations, 2018.values as million of euros.



Managing

practices

# “Management Practice” scores

Productivity and profitability depend on management practices

1	Estados Unidos	3,35
3	Alemanha	3,23
6	Reino Unido	3,02
7	Itália	3,02
8	França	3,02
12	Polónia	2,90
14	Portugal	2,87
17	Grécia	2,73
18	China	2,71
19	Brasil	2,71
20	Índia	2,67

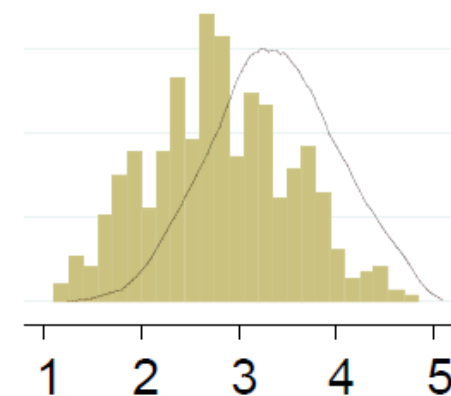
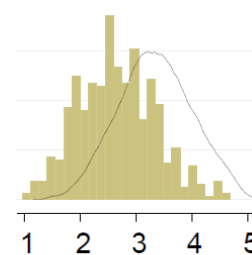
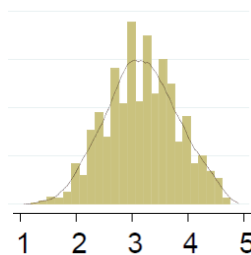
“In the United States, a plant at the 90th percentile has **labor productivity 4x** a plant at the 10th percentile (Syverson, 2004), **total factor productivity is 2x.**”

recall:

United States

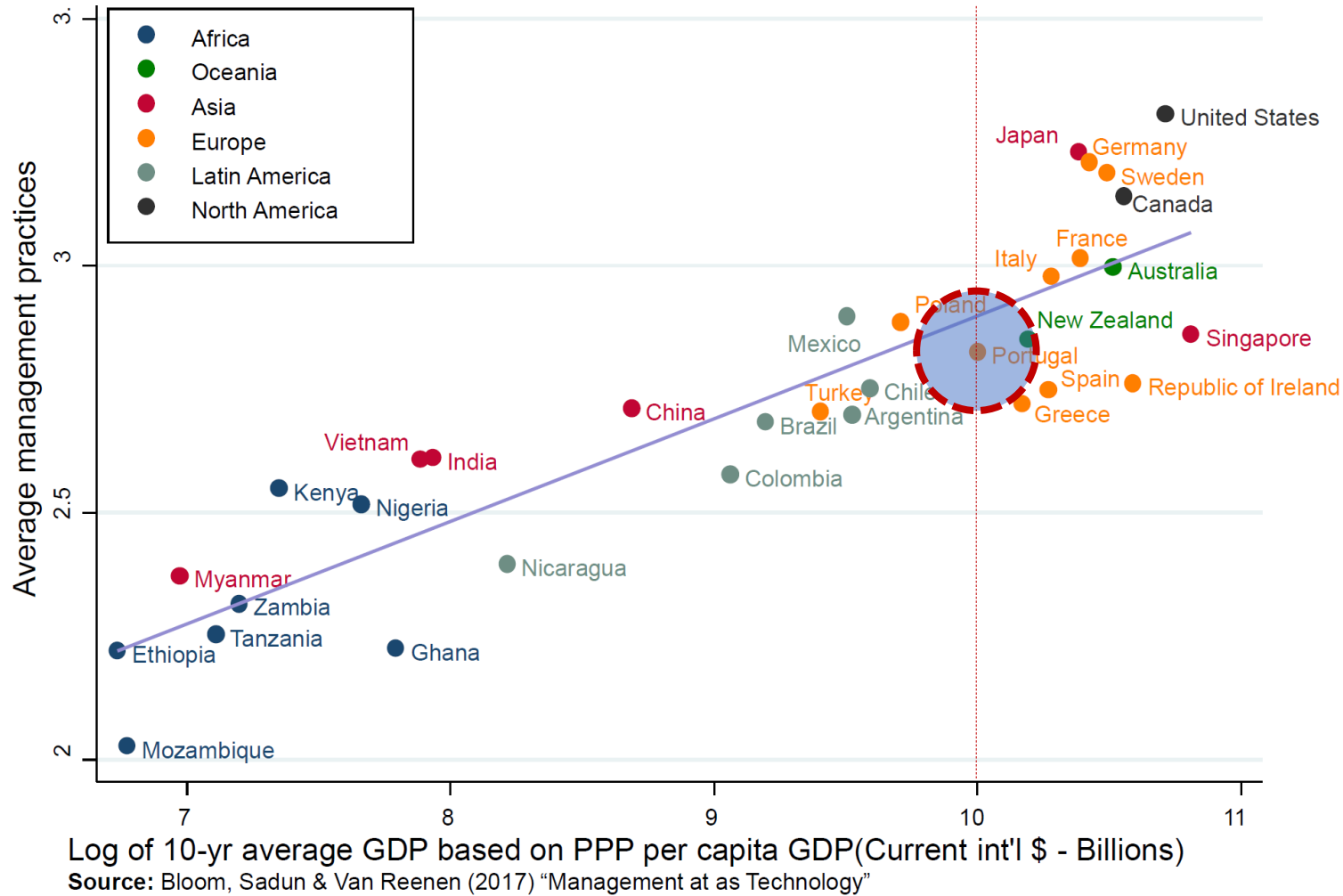
Brazil

Portugal & Greece...



Source: Bloom, Genakos, Sadun & Reenen, 2012

Notes: international study on management practices in 20 countries around the world, comprising companies ranging between 100 e 5000 employees. Portugal is represented with 247 firms | management scores on a scale from 1 (min) to 5 (max).



# management is technology

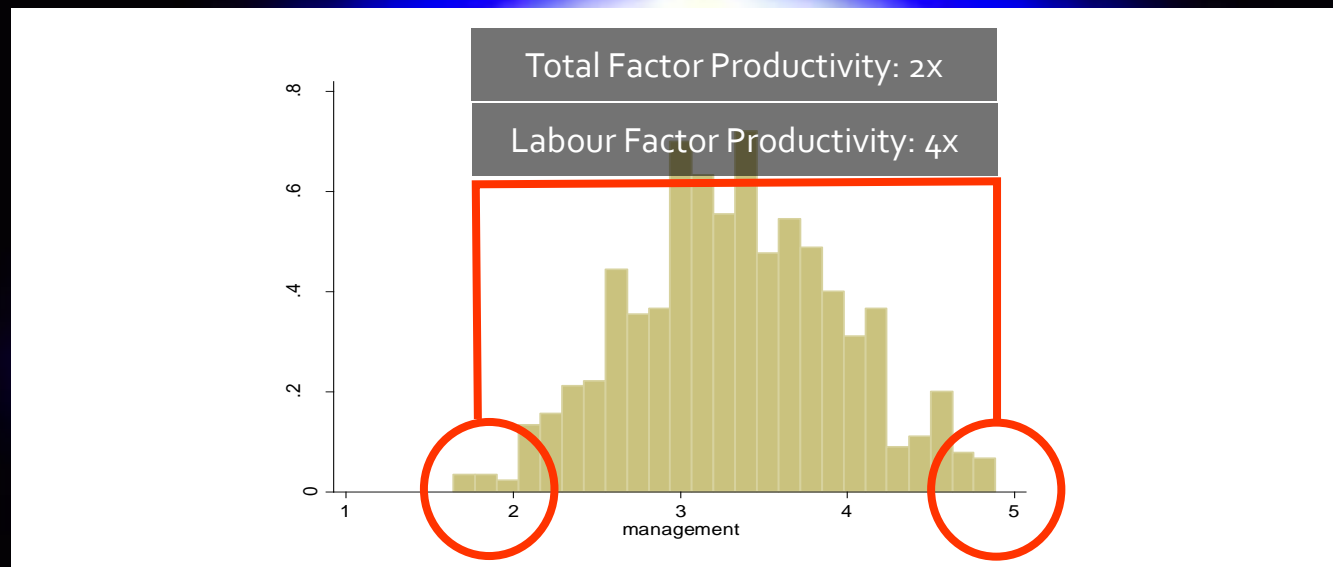
A positive relationship between management practices (scores), productivity, and economic development and growth.

Source: Van Reenen, John (2017). "Management and the Wealth of Nations". World Bank Empirical Management Conference, Washington.

# Corporate performance...

depends on management practices

In the United States, a plant at the 90th percentile has **labor productivity 4x** a plant at the 10th percentile (Syverson, 2004), **total factor productivity** is 2x



Fonte: Bloom, Genakos, Sadun & Reenen, 2012

Source: international study on management practices in 20 countries around the world, comprising companies ranging between 100 e 5000 employees. Portugal is represented with 247 firms | management scores on a scale from 1 (min) to 5 (max).

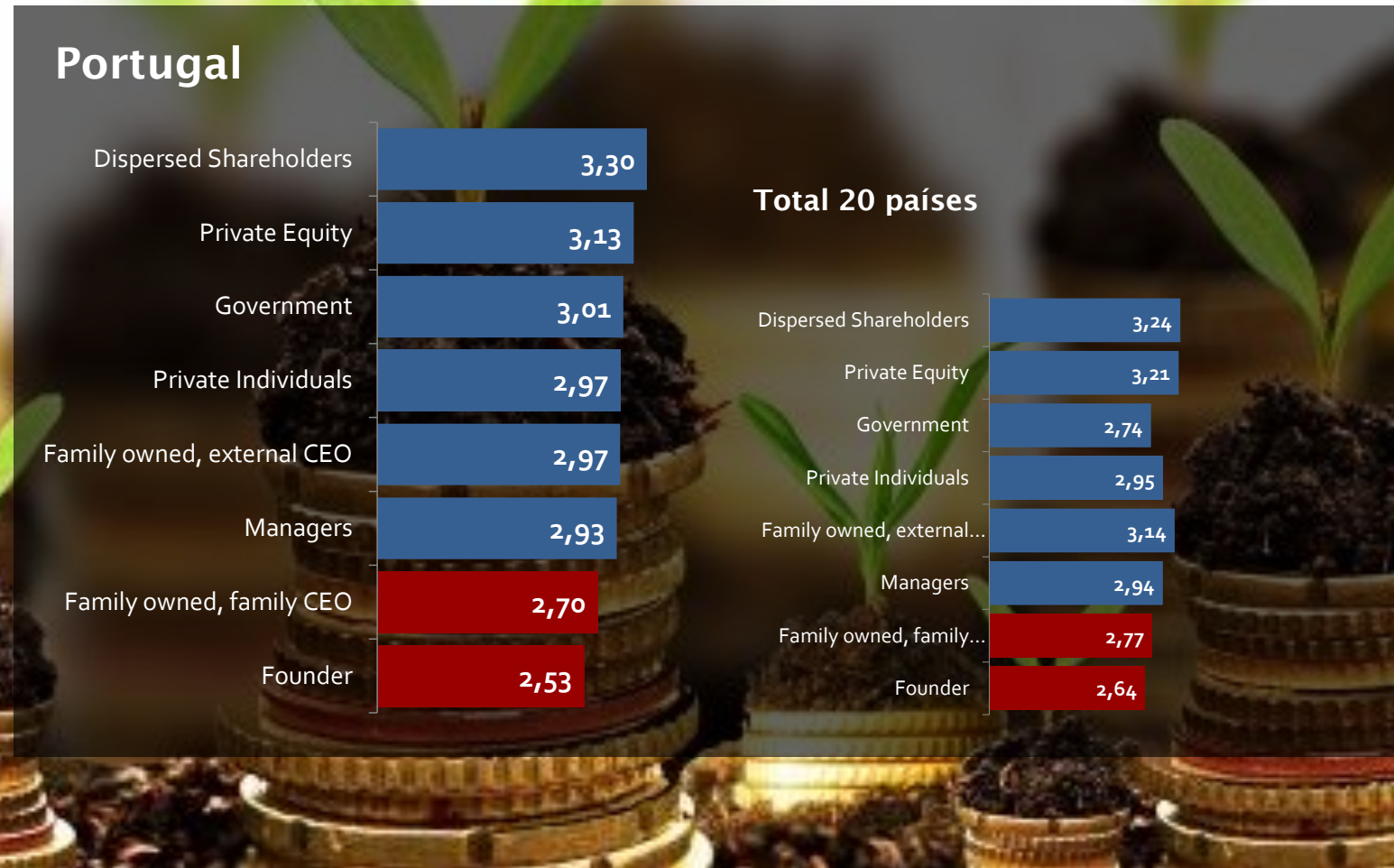




Source: Bloom, Genakos, Sadun & Reenen, 2012

Notes: international study on management practices in 20 countries around the world, comprising companies ranging between 100 e 5000 employees. Portugal is represented with 247 firms | management scores on a scale from 1 (min) to 5 (max).

- “Management Practice” scores
- prevalência por modelos de propriedade e de governo



Source: Bloom, Genakos, Sadun & Reenen, 2012

Notes: international study on management practices in 20 countries around the world, comprising companies ranging between 100 e 5000 employees. Portugal is represented with 247 firms | management scores on a scale from 1 (min) to 5 (max).



**investors**

**corporations**

# Next session: Recovery instruments and the Investors' narrative

October 30<sup>th</sup> – from 9AM to 10:15AM



## Webinar reloaded - NPL ecosystem at a glance

- Joaquim Paulo, Deloitte Portugal
- Susana Bento, Deloitte Portugal



## The outbreak of recovery instruments

- Andrew Grimstone, Deloitte UK
- Ricardo Reis, Deloitte Portugal
- Jorge Marrão, Deloitte Portugal



## Voice to investors: a new narrative?

- Benjamin Collet, Deloitte UK
- André Nunes, Whitestar
- Martim Avillez Figueiredo, Core Capital



## Q&A and closing





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