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Companies

# The financial position of French companies: strengths and weaknesses on the eve of the pandemic

Non-financial corporations entered the pandemic with several factors in their favour: three straight years of robust growth, higher profit shares, consistently low interest rates and increasing cash balances.

Leverage ratios were down for SMEs, and up for intermediate-sized enterprises and large enterprises. Still, with their more limited access to market financing, SMEs in 2020 found themselves in great need of government-backed loans; by end November, SMEs would account for 75% of such borrowing.

The prospect of higher business debt in 2020 (largely offset, it is true, by increased cash) did highlight some weaknesses: companies were less profitable than on the eve of the 2008 crisis; their working capital requirement had risen in 2019; and their debt repayment capacity was only improving slowly. Moreover, these average trends masked individual company financial conditions that had grown worse.

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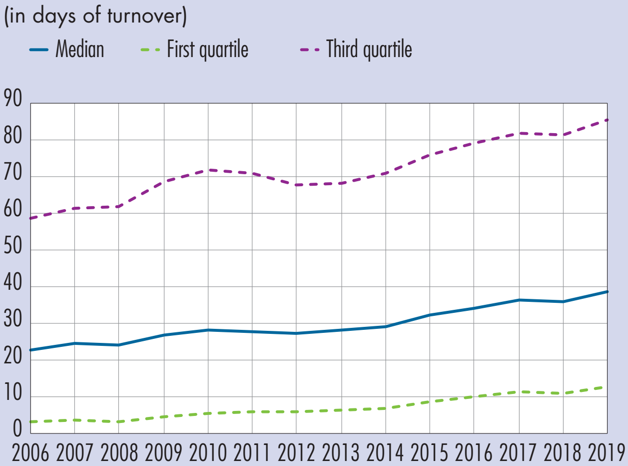
**6.6%**
increase in gross operating profit of small and medium-sized enterprises (SMEs) in 2019

**1.1%**
average interest on new loans to intermediate-sized enterprises (ISEs) in 2017-2019

**3.9%**
return on capital employed for large enterprises (LEs) in 2019

**SME cash**
(in days of turnover)




Source: Banque de France, FIBEN database, November 2020.

This article analyses the economic and financial position of French companies in 2019 using the set of corporate financial statements in FIBEN, a database maintained by the Banque de France. The study encompasses non-financial corporations located in France with an annual turnover of over EUR 750,000. It thus includes small and medium-sized enterprises (SMEs), intermediate-sized enterprises (ISEs) and large enterprises (LEs).[1]

## 1 Business activity remained brisk in 2019

### Turnover growth remained strong

Business revenue growth in France remained strong in 2019 at 2.7%, although more modest than the big jumps in 2017 of 4.9% and 2018 of 4.4% (see Table 1). The deceleration was more pronounced among LEs (up 1.7% in 2019 following 3.9% in 2018) and ISEs (up 2.5% following 4.4%) than among SMEs, where turnover rose considerably (up 5.1% in 2019 on top of 5.3% in 2018.)

Growth in total turnover was particularly constrained by export revenue, which rose 0.2% in 2019 as compared with 6.5% in 2017 and 5.6% in 2018. This measure stalled in 2019 for both ISEs and LEs, after major increases in 2017 and 2018. By contrast, SMEs held up well on this measure, with export revenue growth of 3.3%.

### EBITDA grew significantly

Growth in value-added remained at high levels in 2019, up 3.5% following 3.0% in 2018. Growth was significant for businesses of all sizes: 4.7% for SMEs, 2.6% for ISEs and 3.4% for LEs (see Table 2).

The year 2019 saw the reform of CICE, the French tax credit "for competitiveness and employment." Companies thus enjoyed both the CICE on wages paid before 2019 and a reduction in employer contributions, which replaced the CICE, on compensation paid from 1 January 2019 forward. Therefore, employee expenses rose less rapidly than in years past: up 2.7% in 2019 vs. 4.0% in 2018 and 3.7% in 2017. The rise was still significant, especially with respect to SMEs (up 4.4%). In fact, though lower taxes and contributions reduced labour costs, other factors such as strong job growth, highlighted by Insee, pulled in the opposite direction.[2] In our study sample, moreover, we see that growth in wages before taxes and contributions and in external employee expense was especially high for SMEs, at 4.6% and 6.6% respectively.

### T1 Change in turnover

(%)

| | Turnover | | | o/w exports | | |
|---|---|---|---|---|---|---|
| | 2017/2016 | 2018/2017 | 2019/2018 | 2017/2016 | 2018/2017 | 2019/2018 |
| SMEs | 4.9 | 5.3 | 5.1 | 5.4 | 4.6 | 3.3 |
| ISEs | 4.5 | 4.4 | 2.5 | 5.2 | 3.4 | 0.3 |
| LEs | 5.4 | 3.9 | 1.7 | 7.8 | 8.0 | -0.6 |
| Total | 4.9 | 4.4 | 2.7 | 6.5 | 5.6 | 0.2 |

Source: Banque de France, FIBEN database, November 2020.
Scope: Non-financial corporations as defined in France's Economic Modernisation Act (LME).
Notes: Changes are calculated based on a sample of companies whose balance sheets appear in the FIBEN database for two consecutive reporting years (balanced sample). The size used is that of year N-1 regardless of company size in year N—e.g., we use the 2018 size when comparing 2019 to 2018. Appendices 1 and 2 give more detail about the FIBEN database and the definition of company size according to the LME. SME: small and medium-sized enterprise; ISE: intermediate-sized enterprise; LE: large enterprise.

1 As a supplement to the discussion in this paper, Appendices 1 and 2 present the scope of the study, the definitions of company size and the data used. Appendix 1 also refers the reader to a complete methodological exhibit available online.

2 See Insee (2020).

### T2 From value-added to EBITDA – yearly changes

(%)

| | Value added | | | Employee payroll & benefits expense | | | Production levies | | | EBITDA | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017/2016 | 2018/2017 | 2019/2018 | 2017/2016 | 2018/2017 | 2019/2018 | 2017/2016 | 2018/2017 | 2019/2018 | 2017/2016 | 2018/2017 | 2019/2018 |
| SMEs | 4.4 | 4.8 | 4.7 | 4.5 | 5.4 | 4.4 | 3.9 | 6.9 | -0.5 | 4.5 | 2.3 | 6.6 |
| ISEs | 3.0 | 3.1 | 2.6 | 3.6 | 4.3 | 2.7 | 2.8 | 5.4 | 0.0 | 1.8 | 0.1 | 3.0 |
| LEs | 3.8 | 1.6 | 3.4 | 3.2 | 2.7 | 1.4 | 3.6 | 5.0 | -0.2 | 4.7 | -4.3 | 9.4 |
| Total | 3.7 | 3.0 | 3.5 | 3.7 | 4.0 | 2.7 | 3.4 | 5.4 | -0.2 | 3.7 | -1.2 | 6.7 |

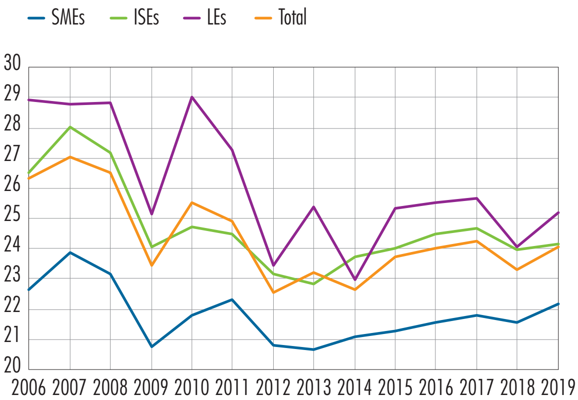
Source: Banque de France, FIBEN database, November 2020.
Scope: Non-financial corporations as defined in France's Economic Modernisation Act (LME).
Note: See Table 1.

After increasing three years in a row, production levies levelled off in 2019 (down 0.2%). It is worth noting that the government's September 2020 stimulus plan announced an ongoing EUR 10 billion reduction in producer levies starting in 2021. Such levies in 2018 represented EUR 77 billion or 3.2% of GDP, as compared with 1.6% across the European Union.[3]

EBITDA rebounded significantly in 2019, up 6.7% after falling 1.2% in 2018. The rebound was especially pronounced in LEs (up 9.4% after falling 4.3%) and SMEs (up 6.6% after falling 2.3%).

### C1 Profit share

(%)




Source: Banque de France, FIBEN database, November 2020.
Scope: Non-financial corporations as defined in France's Economic Modernisation Act (LME).
Note: The profit share is defined as EBITDA over value added.

### Profit shares rose among companies of all sizes

*In fine*, the profit share for 2019, as measured by EBITDA to value-added, was 24.1% (see Chart 1). The ratio rose in businesses of all sizes, though more markedly in SMEs and LEs. Thus we saw in 2019 a continuation of the broad trend of higher profit shares observed since 2014.

## 2 Working capital requirements and investment rates rose

### The working capital requirement increased slightly

Working capital requirement (WCR) means the short-term financing needed to meet time lags in cash flow arising in the current operations of a business. WCR equalled 18 days of turnover in 2019, vs. 17 days in 2018. The measure had been relatively stable for 10 years, moving in a range of 16 to 18 days.

SMEs posted the highest WCR at 33 days of turnover, versus 32 in 2018. The WCR of ISEs also rose in 2019, from 25 to 27 days. Large enterprises' WCR rose as well, to 3 days in 2019 versus 1 day in 2018, but remained significantly lower than for SMEs and ISEs.

These differences in working capital requirement by size of company show how the balance of power tips in favour of large enterprises when it comes to payment terms (Gonzalez, 2021).

3 France Relance, press kit, 3 September 2020.

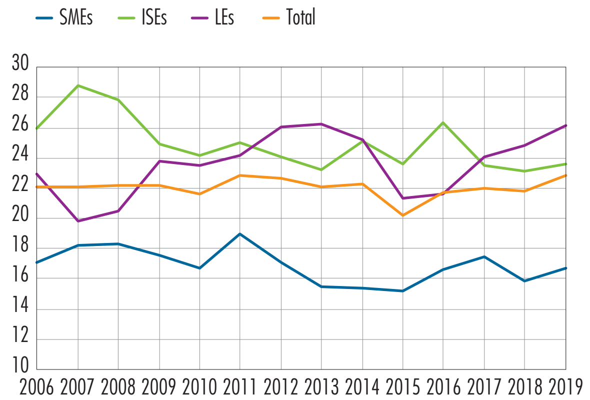
### The rate of investment rose, particularly among LEs

In 2019, the overall investment rate, which is the ratio of capital expenditures to value added, rose 1.1 percentage points from 2018, to 22.9% (see Chart 2). This rise was driven largely by LEs, whose 2019 investment rate rose for the fourth consecutive year, to 26.2%. The investment rates for SMEs and ISEs rose more incrementally, to 16.7% and 23.6% respectively. While the medium-term trend in these rates has been relatively stable, the rate for LEs has been more volatile.

In a recent article,[4] Duquerroy and Mazet-Sonilhac point out that a key challenge for economic policy will be to maintain businesses' ability to invest as they emerge from the Covid-19 crisis, as exemplified by the emergency measures taken by the European Central Bank and the French government. The authors stress that such government support is crucial to enabling companies to preserve their productive capacity. These measures prevent long-term strategic costs like capital expenditures from becoming mere adjustment variables, which would jeopardise any possibility of economic recovery once the crisis has passed.

C2 Investment ratio

(%)




Source: Banque de France, FIBEN database, November 2020.
Scope: Non-financial corporations as defined in France's Economic Modernisation Act (LME).
Note: The investment ratio is defined as capital expenditures over value added.

## 3 The trend in debt varied with company size

### The debt ratio again fell for SMEs, while rising for ISEs and LEs

Trends in the leverage ratio — or debt ratio — over time gives us a good picture of the trend in corporate indebtedness. This ratio sets financial debt over shareholders' equity. Debt is taken first as gross debt (see Chart 3a) and then as net debt (see Chart 3b).

The gross leverage ratio in 2019 was lowest for SMEs, at 77%, while reaching 111% for ISEs and 124% for LEs. SMEs' leverage declined for the eighth year in a row, primarily reflecting the continual additions made to their equity. The leverage ratios of ISEs and LEs over the medium term have been more volatile. In 2019, the gross leverage ratios of ISEs and LEs rose significantly.

The monthly data collected by the Banque de France's Central Credit Register offer for study the outstanding loans of a greater number of SMEs than found in our study sample, which is taken from FIBEN. And the bank debt of those companies recorded in the Central Credit Register but not in the FIBEN database of financial statements showed a great deal of movement. The question then becomes how the equity of the companies in question has changed over time. Information for about half of them can be found by using the Insee data from their FARE database. Then, taking the Central Credit Register bank loan figures as a fraction of the Insee equity figures, we construct the debt ratio for SMEs not surveyed in FIBEN and see that it trended downward from 2011 through 2018. This confirms the reduction in SME debt highlighted in Chart 3. The same chart also shows the change in "average ratios," consisting of aggregate SME debt over aggregate SME equity.

4 Duquerroy (A.) and Mazet-Sonilhac (C.) (2020), "Investment by large enterprises during a crisis", *Bloc-Notes Éco*, 20 October.

The result seems robust in the light of other approaches.[5] However, the situation of SMEs is far from homogeneous, and making a broad conclusion about the change in SME debt over time requires caution.

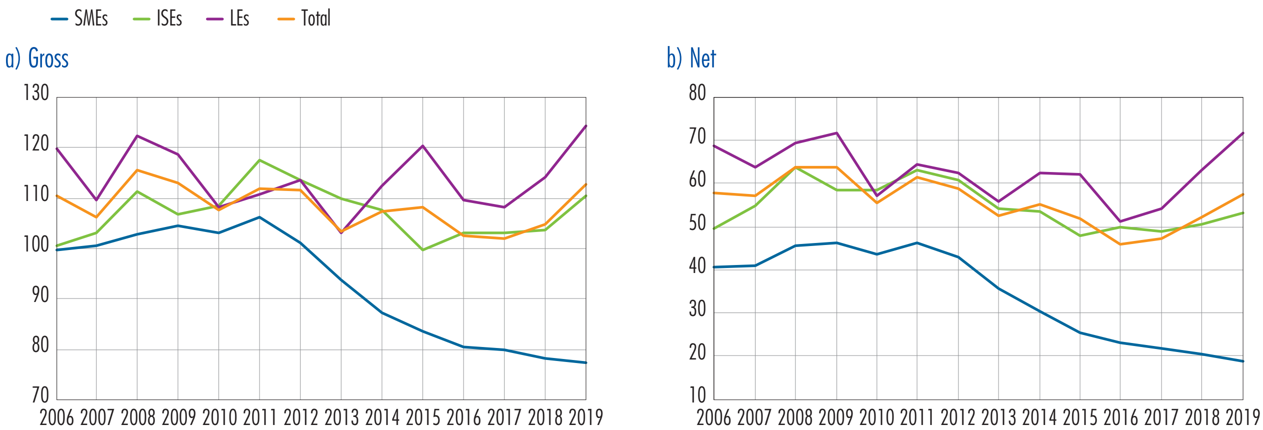
On the whole, factoring in cash (see Chart 3b) does not alter the trends observed. We still see leverage decreasing for SMEs and increasing for ISEs and LEs. Taking cash into account does, however, have a considerable impact on firms' debt ratios, which are quite a bit lower "net" than "gross." Looked at this way, SMEs still show the lowest debt ratio — 19% in 2019 versus 53% for ISEs and 72% for LEs.

Broadly speaking, companies' cash balances on the eve of the pandemic were a major point in their favour. In illustration of this, the box below shows that businesses had built up considerably more cash on the eve of the Covid-19 crisis than they had before the financial crisis of 2008.

Lastly, it should be noted that the Covid-19 crisis prompted companies of all sizes to use debt in the first half of 2020 (Vinas, 2020). The increase in bank loans was driven at first by ISEs and LEs, who used their available credit lines at the very start of the crisis, and then later by SMEs, who gradually made use of government-backed loan (GBL) schemes (*Prêts garantis par l'État* – PGE, see below).

### C3 Debt ratio

(%)




Source: Banque de France, FIBEN database, November 2020.
Scope: Non-financial corporations as defined in France's Economic Modernisation Act (LME).
Note: Gross debt ratio = financial debt / equity. Net debt ratio = (financial debt – cash) / equity. Because the net debt ratio factors cash into the analysis, it refines the diagnosis made with the gross ratio. A business that generates more cash will more easily deal with its liabilities as they come due. A note of caution: not all cash is necessarily usable for debt repayment, but we lack the necessary information to identify the portion of cash actually available for debt reduction.

5 The approach taken here, sometimes termed macro-economic, consists of taking an average of all debt ratios, calculated company by company and weighted by shareholders' equity. It thus weights more heavily the ratios of companies whose equity represents a larger share of the total, and therefore the largest SMEs. Another approach consists of calculating the simple arithmetic average of the individual ratios, which weights all companies the same regardless of their amount of equity. This approach of using the mean of individual ratios (or the median), which we do not show here, also bears out the finding of a downward trend in the SME debt ratio.

BOX

## Non-financial corporations had more cash overall on the eve of the pandemic than before the 2008 financial crisis

Businesses' ability to absorb the shock of the Covid-19 crisis depended primarily on the size of their cash cushion at the outset. How big was it?

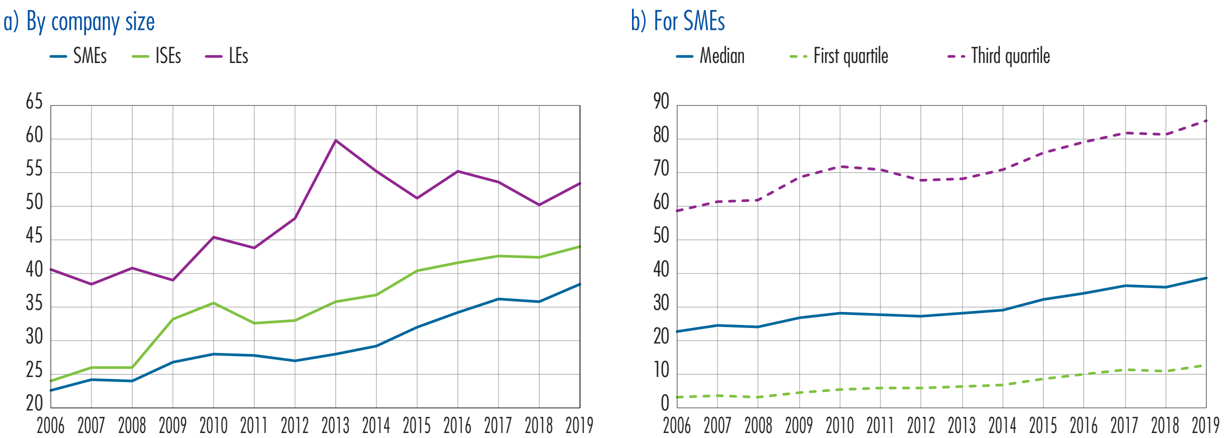
Shortly before the pandemic began in late 2019, half of small and medium-sized enterprises (SMEs) held cash representing about 38 days of turnover vs. 44 days for intermediate-sized enterprises (ISEs) and 53 days for large enterprises (LEs) (see Chart a). These median figures are distinctly higher than those observed just before the financial crisis of 2008. Between 2007 and 2019, the median days of cash on hand of SMEs rose by 14 days (up 60%), that of ISEs by 18 days (up 70%) and that of LEs by 15 days (up 39%).

One must not, however, let this trend of increasing cash mask the very great heterogeneity found across companies. Just focusing on SMEs (see Chart b), 25% of these had less than 13 days of cash on hand. At the other extreme, the 25% of SMEs with the most cash had at least 85 days on hand.

Furthermore, besides the heterogeneity in terms of cash *per se*, there were considerable differences in the amounts of "undrawn" bank loans, i.e., the unused portion of lines of credit obtained before the pandemic. Apart from their cash on hand, large enterprises had a median of 11 days of turnover in available credit (43 days for the top quartile), vs. 3 days for half of the ISEs (13 days for the top quartile). By contrast, half of SMEs had no available credit (6 days for the top quartile).

### Cash expressed as days of turnover

(%)




Source: Banque de France, FIBEN database, November 2020.
Scope: Non-financial corporations as defined in France's Economic Modernisation Act (LME).
Notes: Chart (a) gives the median cash balance in days of turnover. Chart (b) gives the median and the first (Q1) and third (Q3) quartiles for SMEs only. "Cash" is defined as the sum of (i) cash and cash equivalents, short-term investments, and net current receivables and payables within a corporate group, minus (ii) unmatured discounted bills of exchange and short-term bank liabilities. The trends remain unchanged using alternative definitions of cash, including simply cash and cash equivalents.

.../...

The cash that companies had on hand to meet the crisis also varied greatly by sector. Retailing was the only sector to report median cash balances lower than one month of turnover (26 days, see table), which left it vulnerable to an external shock. In most sectors, the median company held between one and two months' turnover in cash, e.g., 41 days in construction, 46 days in manufacturing and 54 days in accomodation and food services. Some sectors, however, did report higher levels, such as business consulting (63 days) and the real estate industry (an outlier at 189 days, or over six months). Cash balances by industry depend on the sales cycle and other specific traits such as the insurance carried by construction firms and consulting firms against late payments by their clients. That said, industry was not a perfect predictor of a company's cash position, any more than size. Within a given industry, cash positions varied widely. For instance, 25% of companies in construction held less than 13 days of turnover in cash, whereas the 25% of companies with the most cash in this industry held over 83 days.

**Cash expressed as days of turnover in 2019 – by industry**

| | Median | First quartile | Third quartile |
|---|---|---|---|
| Retailing | 26 | 8 | 57 |
| Transport and storage | 37 | 14 | 78 |
| Agriculture, forestry and fishing | 38 | 4 | 112 |
| Construction | 41 | 13 | 83 |
| Manufacturing | 46 | 15 | 97 |
| accomodation and food services | 54 | 24 | 105 |
| Education, healthcare | 55 | 24 | 108 |
| Other service businesses | 55 | 21 | 115 |
| B2B consulting and services | 63 | 26 | 126 |
| Energy, water, waste | 64 | 18 | 159 |
| Information and communication | 70 | 27 | 146 |
| Real-estate activities | 189 | 67 | 463 |

Source: Banque de France, FIBEN database, November 2020.
Scope and notes: See charts above.

## Unlike ISEs and LEs, SMEs remained highly dependent on bank financing

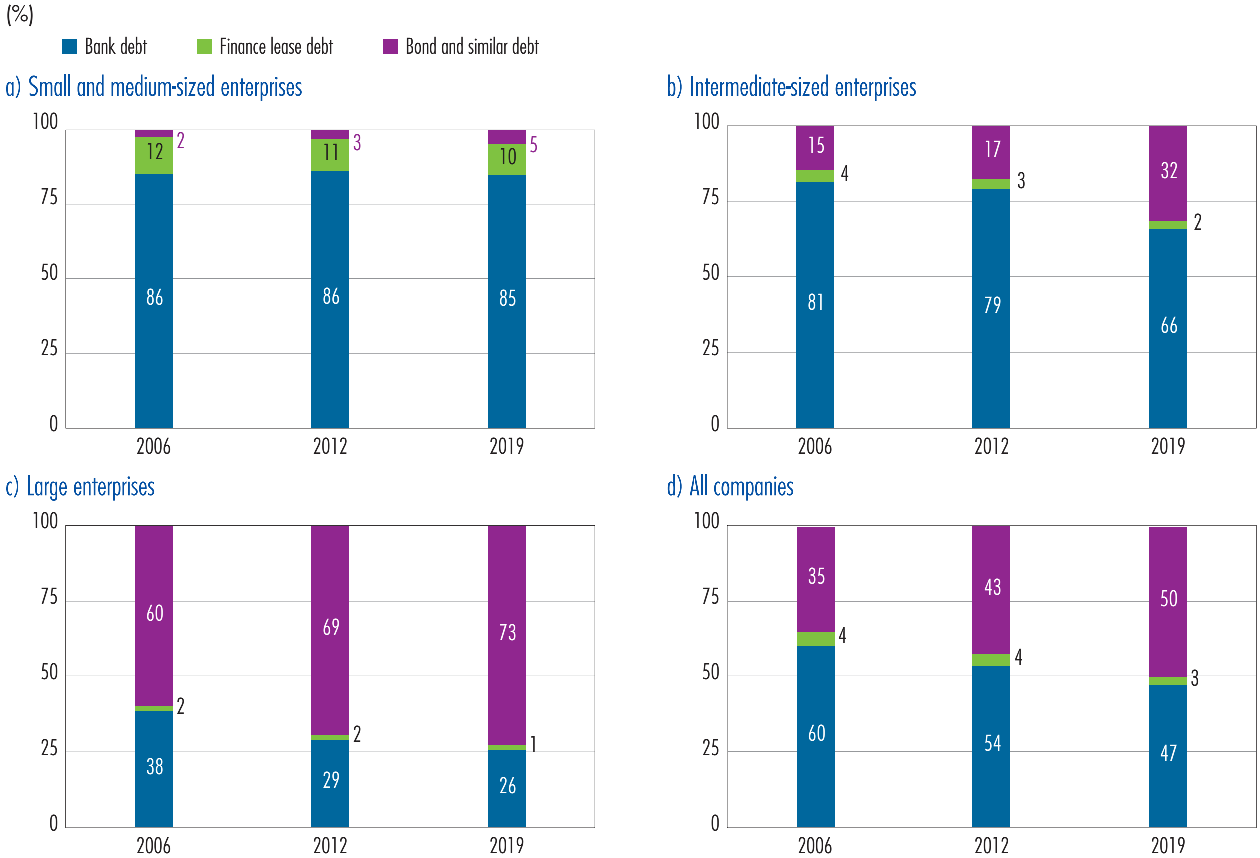
The breakdown of debt among bank loans, bonds and finance leases varies widely according to company size (see Chart 4 below). In 2019, the portion of debt in the form of bank loans was 85% for SMEs, 66% for ISEs and just 26% for LEs, who relied more heavily on bond debt (73%). SMEs also stand out in their heavier use of lease financing (10%), a marginal channel for ISEs (2%) and LEs (1%). These figures were practically unchanged from 2018.

Over a longer period, the relative portion of finance leases decreased for companies of all sizes. One also sees net disintermediation among ISEs and LEs, who have turned less to banks and more to the market for financing. The share of bank loans dropped from 81% in 2006 to 66% in 2019 among ISEs and from 38% to 26% among LEs. For ISEs, the declining share of bank loans was countered by the rising share of bond financing, which went from 15% before the 2008 financial crisis to 32% just before the Covid-19 crisis. The phenomenon of substituting market financing for bank credit, however, was not seen among SMEs, for whom the share of bank credit fell merely one percentage point over ten years.

Easier access to market financing for ISEs and LEs and the greater variety of external financing available to them as a result are a great advantage in weathering a crisis, as compared to SMEs, who remain greatly dependent on bank credit alone. This underscores the importance, particularly to SMEs, of the GBL scheme (government-backed loans, see below), which has made it possible for banks to continue lending during the current pandemic.[6]

6 Another advantage of market financing is access to potentially lower financing rates than offered by bank loans. The issuance of government-backed loans at comparatively low rates, however, made bank credit more competitive. On this point, see, e.g., *Stat Info* "The financing of non-financial corporations – France", 10 November 2020.

C4 Breakdown of bank, bond and lease debt




Source: Banque de France, FIBEN database, November 2020.
Scope: Non-financial corporations as defined in France's Economic Modernisation Act (LME).
Note: The "finance lease" component is equal to finance lease liabilities less a presumed portion of financial costs.

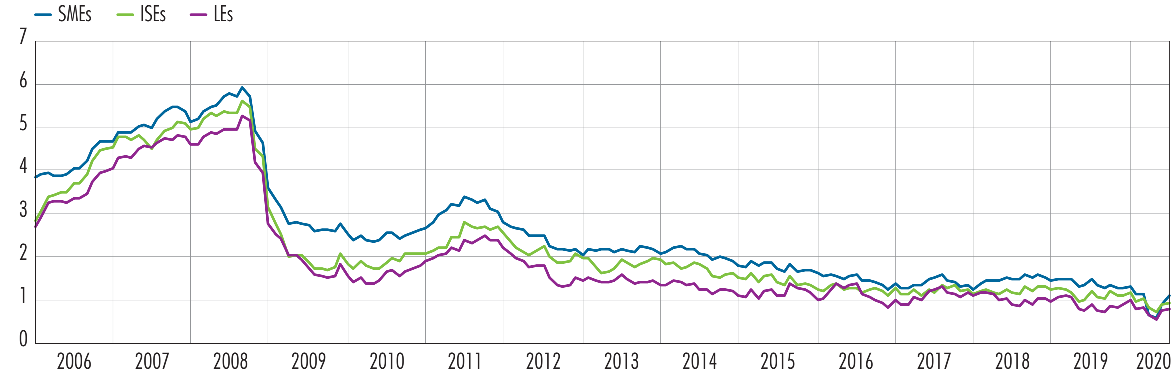
## The low interest rate environment benefited all businesses

In the wake of the 2008 crisis, interest rates on bank loans fell for every category of business, though to varying degrees (see Chart 5). More recently, in 2017-2019, those rates have remained low and fairly stable, around 1.4% for SMEs, 1.1% for ISEs and 0.9% for LEs.

The GBL scheme created in March 2020 in response to the pandemic put downward pressure on general interest rates. As France's High Council for Financial Stability (HCSF) has made clear (HCSF, 2020), government guarantees enabled a new round of decidedly lower interest rates for businesses. Beginning last April, rates on new loans dropped sharply for businesses of all sizes, hitting their low in May 2020: 0.6% for SMEs, 0.7% for ISEs and 0.6% for LEs. Rates later ticked up as the relative share of GBLs in banks' credit mix started to fall.[7]

7 Cf. *Stat Info* "Bank lending by size of business" of 11 August 2020.

C5 Interest rates on business loans
(%)




Source: Banque de France (see *http://webstat.banque-france.fr*).
Notes: Interest rate for new credit facilities (of all maturities, excluding overdrafts). "SMEs" does not include micro-enterprises.

The pandemic and the GBL scheme[8] also had a significant impact on the difference in rates among companies of different sizes. Viewed over an extended period, the rates paid by SMEs had been higher than those paid by ISEs (an average of 37 basis points higher in 2006-2019) and by LEs (65 points). These differences, which make clear how banks' perception of risk varies with company size, nonetheless shrank drastically in the first half of 2020, to an average of 1 basis point between SMEs and ISEs and 19 points between SMEs and LEs.[9]

## 4 Companies' ability to honour their financial obligations slowly improved

How able to repay their debts were companies just before the pandemic? Statistics on Banque de France credit ratings can throw some light on this question. The Banque de France rating system assesses the ability of a business to meet its financial obligations over a three-year period.[10] It offers certain advantages over the indicators traditionally used to measure businesses' debt repayment capacity such as debt to EBITDA, the interest coverage ratio[11] or financial leverage. For one thing, the rating system does not rely on a single aspect of financial analysis such as debt to EBITDA but synthesizes several. For another, Banque de France supplements its quantitative analysis with qualitative considerations gathered during interviews with company executives.

Chart 6 below presents the relative weight among all rated companies of those rated lowest, from 5+(ability to meet obligations is "rather poor") to 9 (ability is "compromised.") It is first seen that the weight of lower rated companies is greater among SMEs than among ISEs or LEs, and this is so whether expressed as a percentage of legal entities (see Chart 6a) or a percentage of financial liabilities (see Chart 6b).

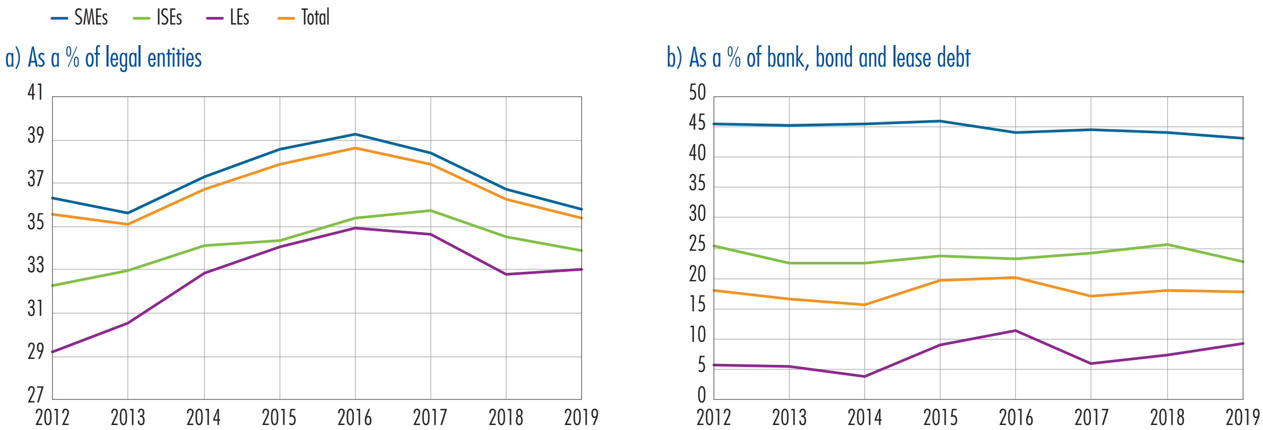
8 As reported, by end-November 2020 some EUR 125 billion of GBLs had been granted by banks, mostly to SMEs. Thus 580,000 SMEs were beneficiaries of the scheme, which accounted for 75% of all SME loans granted and 94% of all recipients.

9 In Chart 5 "SMEs" does not include micro-enterprises. The interest rates paid by the latter were higher than for other SMEs: by an average of 33 basis points in 2006-2019 and 22 points in the first half of 2020.

10 For a detailed presentation of the Banque de France rating system, see: https://entreprises.banque-france.fr/page-sommaire/comprendre-la-cotation-banque-de-france

11 The interest coverage ratio (ICR) is equal to operating earnings (EBIT) divided by financial expenses net of financial income.

C6 Relative weight of the lowest rated legal entities (5+ to 9) among all legal entities rated by the Banque de France




Source: Banque de France, FIBEN database, November 2020.
Key: At end 2019, 34% of legal entities that were part of an ISE (per the LME) had a rating of 5+ to 9. The bank, bond and lease debt of such entities represented 23% of all ISE debt.
Notes: Size as defined in France's Economic Modernisation Act (LME). The rating used was that at 31 December of the year.
Ratings of 0 ("no unfavourable information") and P ("bankruptcy") were ignored.

In addition, regardless of company size, the share of the lowest rated entities has trended downward from its peaks in 2016 or 2017 (see Chart 6a). Among ISEs and LEs, however, the recent trend has not returned to the levels seen in 2012 at the end of the financial crisis and the sovereign debt crisis.[12] SMEs, for their part, have nearly returned to their 2012-2013 levels.

The picture is a bit different if we consider the relative weight of the debt carried by the weakest entities (see Chart 6b). From that standpoint, the weight of the debt carried by the lowest rated companies has been relatively stable among SMEs and ISEs, with only a slight improvement in the past couple of years. The more volatile LE series suggests instead a worsening of the situation over that time.

In the final analysis, these various factors suggest that the improvement in debt repayment capacity came slowly, involving mainly SMEs and ISEs and, primarily, the entities of a given size that carried relatively less debt.

## 5 Profitability in 2019 remained lower than before the 2008 financial crisis

Profitability is a way to express a business's ability to create value from invested capital. It is measured here by two indicators, economic profitability (return on capital employed or ROCE) and financial profitability (return on equity or ROE).

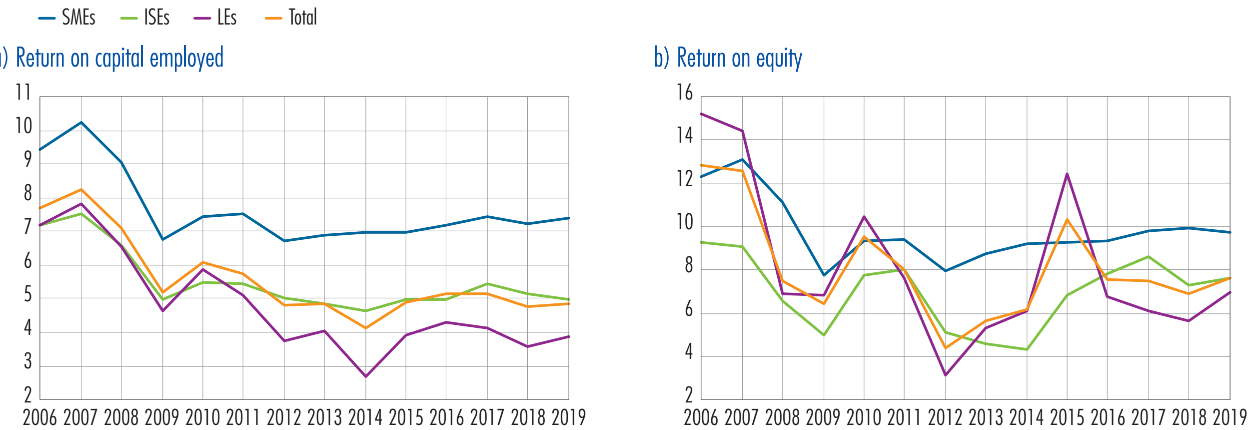
Economic profitability, or ROCE, is the ratio of net operating profit over business assets, consisting of fixed assets and operating WCR. This ratio in 2019 was 4.8%, very close to what it had been since 2012 (see Chart 7a), yet far below its pre-financial crisis levels, which averaged 8.0% in 2006-2007. This finding holds for businesses of all sizes.

As in the past, SMEs exhibited the highest ROCE in 2019: 7.4% vs. 5.0% for ISEs and 3.9% for LEs. At first this performance appears to be due, at least in part, to their sectoral composition; i.e., the business of SMEs falls in sectors with higher profitability, particularly automotive sales and service, construction and business consulting and services.

12 Chart 6 covers 2012-2019 only, to preserve a degree of homogeneity in the rating methodology.

C7 Profitability

(%)




Source: Banque de France, FIBEN database, November 2020.
Scope: Non-financial corporations as defined in France's Economic Modernisation Act (LME).
Notes: Return on capital employed is defined as EBITDA over operating capital (= fixed assets + operating WCR). Return on equity is defined as net earnings over shareholders' equity.

Financial profitability, or ROE, is the ratio of net earnings over shareholders' equity. The ROE of SMEs and ISEs were relatively stable over the year 2019, at 9.7% and 7.6% respectively (see Chart 7b). The ROE of LEs, traditionally more volatile, increased significantly to 7.0%. These levels were quite a bit lower than those before the financial crisis.

## Conclusion

In sum, an analytical look at the position of non-financial corporations in 2019 on the eve of the pandemic brings out a number of encouraging points. Businesses went into the pandemic after three consecutive years of brisk activity, in an environment of continuously low interest rates and with more cash than before the 2008 crisis. They nevertheless showed certain weaknesses. SMEs' external financing, for example, remained highly dependent on bank lending, while the debt ratio of ISEs and LEs had been climbing since 2017. The retail sector, moreover, held relatively low cash balances, which left it vulnerable to an external shock. More fundamentally, the economic and financial position of businesses is by nature heterogeneous, such that the general trends described in this paper may well mask the weakened position of individual companies.

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*"Outstanding loans to enterprises increased sharply in France in the first half of 2020", Banque de France Bulletin, No. 232/7, November-December.*
*Download the document*

# Appendix 1
## Methodology, FIBEN data and scope of the study

### Methodology

The financial analysis methodology and the definition of the ratios used are given in "La situation des entreprises en France en 2019 – Méthodologie" (The position of businesses in France in 2019 - methodology), available online at: *https://www.banque-france.fr/statistiques/acces-aux-series/methodologies*

### FIBEN data

Unless stated otherwise, the data used in this study come from the Banque de France's FIBEN database. More specifically, the following datasets were drawn from:

- **Corporate financial statements:** The Banque de France compiles the financial statements of companies whose annual turnover exceeds EUR 0.75 million. Until 2012, the survey also included companies meeting at least one of the following criteria: bank debt greater than EUR 0.38 million, loss of more than half of their equity and turnover under EUR 0.75 million for the first time. Only companies located in France are surveyed. In 2018, the database covered 85% of the total workforce of companies subject to French corporate income tax and with a turnover over EUR 0.75 million. The coverage in terms of turnover was about 90%.
- **Financial ties:** The Banque de France surveys corporate financial ties and analyses the percentage of equity owned by other companies, distinguishing whether the owner is itself a non-financial corporation (including holding companies), a financial institution (bank, mutual fund or insurance company), a natural person (private individual or employee), the French government or a non-resident company. Independent companies are distinguished from those that are part of a corporate group.

### The scope covered

The study concerned companies subject to French income tax that were included in FIBEN. Sectors KZ (financial businesses, excluding holding companies) and O (governmental) were excluded.

# Appendix 2
## Company size and industry

Implementation Decree No. 2008-1354 of the French Economic Modernisation Act (LME), which defines the concept of business statistics, lays out the categories of company size and the criteria for determining them, in keeping with the definitions of the European Commission. The criteria are fourfold: headcount, turnover, total assets and, implicitly, the financial ties linking legal entities. By "legal entity" is meant an entity with an official identification number (SIREN).

The first three criteria are measured at the company level where "company" means the smallest combination of legal entities making up an organisational unit producing goods or services and enjoying some autonomy of decision-making, which is defined in term of financial ties. A financial tie is identified whenever there is at least 50% equity ownership by another legal entity.

A company can therefore be a single legal entity or a composite of legal entities. If a company consists of several legal entities, the financial statements of the constituent legal entities are aggregated to define "the company." This process is not the same as a financial accounting consolidation and can cause double-counting among the entities of a single parent company. Some variables, however, are statistically removed from the double-counting (see the methodological note).

Sizes are defined as follows:

- **Small and medium-sized enterprises (SMEs)** are those which (i) employ fewer than 250 people and (ii) have an annual turnover not exceeding EUR 50 million or total assets not exceeding EUR 43 million.

- **Intermediate-sized enterprises (ISEs)** are companies that do not fit in the SME category and that (i) employ less than 5,000 people and (ii) have an annual turnover not exceeding EUR 1.5 billion or total assets not exceeding EUR 2 billion.

- **Large enterprises (LEs)** are companies not classified in the preceding categories.

**Industry** nomenclature derives from the French industry nomenclature, second revision (NAF, rev. 2, 2008).

For companies with multiple legal entities, the industry is determined by recombining the legal entities by industry. The selected industry designation is that of the legal entities with the greatest weight in the company in terms of turnover, provided it exceeds 50%. Otherwise the different re-combinations of legal entities are assigned to an industry based on workforce, again provided the relative weight is greater than 50%. Failing that, the classification is done once more on the basis of turnover. In the last case, the industry representing entities with the largest turnover is used.

## Ta Average size of each category of business in 2019

(workforce in units; turnover, value added, financial debt, bank debt and equity in millions of euros)

| | Number of companies | Number of legal entities [a] | Number of balance sheets [b] | Average permanent workforce | Average turnover | Average value added | Average financial debt | Average bank debt | Average equity |
|---|---|---|---|---|---|---|---|---|---|
| Total | 166,541 | 391,341 | 261,791 | 66 | 20 | 5 | 12 | 3 | 10 |
| SMEs | 160,824 | 302,278 | 216,822 | 21 | 5 | 1 | 1 | 1 | 2 |
| ISEs | 5,455 | 64,059 | 33,499 | 595 | 206 | 52 | 106 | 46 | 95 |
| LEs | 262 | 25,004 | 11,470 | 16,648 | 5,579 | 1,448 | 4,319 | 587 | 3,471 |

Source: Banque de France, FIBEN database, November 2020.
Scope: Non-financial corporations as defined in France's Economic Modernisation Act (LME): all trading businesses but those in Sector KZ (financial businesses, excluding holding companies) and Sector O (governmental activities).
Note: SME: small and medium-sized enterprise; ISE: intermediate-sized enterprise; LE: large enterprise.
a) Number of entities within the company's scope of consolidation as defined by the French Economic Modernisation Act (LME), whether or not the balance sheet appears in the FIBEN database.
b) Number of balance sheets in the FIBEN database used in the study.

## Tb Relative economic weight of non-financial corporations in 2019

(workforce in thousands; turnover, value added, financial debt, bank debt and equity in billions of euros)

| | Number of companies | Number of legal entities [a] | Number of balance sheets [b] | Permanent employees | Turnover | Value added | Financial debt | Bank debt | Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| Total | 166,541 | 391,341 | 261,791 | 10,856 | 3,370 | 901 | 1,917 | 540 | 1,701 |
| **By size** | | | | | | | | | |
| SMEs | 160,824 | 302,278 | 216,822 | 3,248 | 785 | 240 | 210 | 136 | 271 |
| *o/w subsidiaries of foreign corporations* | *6,578* | *18,101* | *8,684* | *246* | *90* | *25* | *26* | *9* | *25* |
| ISEs | 5,455 | 64,059 | 33,499 | 3,246 | 1,124 | 283 | 576 | 251 | 521 |
| *o/w subsidiaries of foreign corporations* | *1,506* | *12,030* | *6,301* | *981* | *429* | *105* | *131* | *33* | *138* |
| LEs | 262 | 25,004 | 11,470 | 4,362 | 1,462 | 379 | 1,132 | 154 | 909 |
| **By industry** | | | | | | | | | |
| Agriculture, forestry and fishing | 2,323 | 3,815 | 2,888 | 51 | 13 | 4 | 8 | 5 | 10 |
| Manufacturing | 23,984 | 63,926 | 42,092 | 2,212 | 917 | 221 | 450 | 89 | 484 |
| Energy, water, waste | 1,797 | 8,887 | 4,655 | 413 | 170 | 53 | 295 | 34 | 140 |
| Construction | 26,733 | 55,644 | 38,230 | 899 | 216 | 79 | 119 | 43 | 111 |
| Retailing | 63,803 | 128,838 | 93,407 | 2,768 | 1,348 | 209 | 341 | 103 | 459 |
| Transport and storage | 6,893 | 17,456 | 12,520 | 1,066 | 196 | 75 | 171 | 38 | 113 |
| Accomodation and food services | 8,844 | 23,042 | 15,110 | 429 | 50 | 23 | 46 | 15 | 27 |
| Information and communication | 4,738 | 13,445 | 7,950 | 553 | 153 | 78 | 139 | 29 | 125 |
| Real-estate activities | 2,894 | 12,488 | 4,821 | 105 | 35 | 20 | 181 | 112 | 108 |
| B2B consulting and services | 18,309 | 47,335 | 29,527 | 1,877 | 200 | 108 | 116 | 48 | 78 |
| Education, healthcare | 4,129 | 11,216 | 7,389 | 361 | 37 | 22 | 37 | 20 | 28 |
| Home services | 2,094 | 5,249 | 3,202 | 122 | 35 | 9 | 15 | 6 | 18 |

Source: Banque de France, FIBEN database, November 2020.
Scope: Non-financial corporations as defined in France's Economic Modernisation Act (LME): all trading businesses but those in Sector KZ (financial businesses, excluding holding companies) and Sector O (governmental activities).
Note: SME: small and medium-sized enterprise; ISE: intermediate-sized enterprise; LE: large enterprise
a) Number of entities within the company's scope of consolidation as defined by the French Economic Modernisation Act (LME), whether or not the balance sheet appears in the FIBEN database.
b) Number of balance sheets in the FIBEN database used in the study.

## Tc Relative economic weight of non-financial corporations in 2019

(broken down by%)

| | Number of companies | Number of legal entities a) | Number of balance sheets b) | Permanent employees | Turnover | Value added | Financial debt | Bank debt | Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| **by size** | | | | | | | | | |
| SMEs | 96.6 | 77.2 | 82.8 | 29.9 | 23.3 | 26.6 | 10.9 | 25.1 | 15.9 |
| *o/w subsidiaries of foreign corporations* | *3.9* | *4.6* | *3.3* | *2.3* | *2.7* | *2.7* | *1.3* | *1.7* | *1.5* |
| ISEs | 3.3 | 16.4 | 12.8 | 29.9 | 33.4 | 31.4 | 30.0 | 46.4 | 30.6 |
| *o/w subsidiaries of foreign corporations* | *0.9* | *3.1* | *2.4* | *9.0* | *12.7* | *11.6* | *6.8* | *6.0* | *8.1* |
| LEs | 0.2 | 6.4 | 4.4 | 40.2 | 43.4 | 42.1 | 59.0 | 28.5 | 53.5 |
| **By industry** | | | | | | | | | |
| Agriculture, forestry and fishing | 1.4 | 1.0 | 1.1 | 0.5 | 0.4 | 0.5 | 0.4 | 0.9 | 0.6 |
| Manufacturing | 14.4 | 16.3 | 16.1 | 20.4 | 27.2 | 24.5 | 23.4 | 16.4 | 28.5 |
| Energy, water, waste | 1.1 | 2.3 | 1.8 | 3.8 | 5.1 | 5.8 | 15.4 | 6.3 | 8.3 |
| Construction | 16.1 | 14.2 | 14.6 | 8.3 | 6.4 | 8.7 | 6.2 | 8.0 | 6.6 |
| Retailing | 38.3 | 32.9 | 35.7 | 25.5 | 40.0 | 23.2 | 17.8 | 19.0 | 27.0 |
| Transport and storage | 4.1 | 4.5 | 4.8 | 9.8 | 5.8 | 8.4 | 8.9 | 7.1 | 6.6 |
| Accomodation and food services | 5.3 | 5.9 | 5.8 | 4.0 | 1.5 | 2.6 | 2.4 | 2.7 | 1.6 |
| Information and communication | 2.8 | 3.4 | 3.0 | 5.1 | 4.5 | 8.6 | 7.2 | 5.3 | 7.3 |
| Real-estate activities | 1.7 | 3.2 | 1.8 | 1.0 | 1.0 | 2.2 | 9.5 | 20.7 | 6.3 |
| B2B consulting and services | 11.0 | 12.1 | 11.3 | 17.3 | 5.9 | 12.0 | 6.0 | 8.8 | 4.6 |
| Education, healthcare | 2.5 | 2.9 | 2.8 | 3.3 | 1.1 | 2.4 | 1.9 | 3.6 | 1.6 |
| Home services | 1.3 | 1.3 | 1.2 | 1.1 | 1.0 | 1.0 | 0.8 | 1.1 | 1.1 |

Source: Banque de France, FIBEN database, November 2020.
Scope: Non-financial corporations as defined in France's Economic Modernisation Act (LME): all trading businesses but those in Sector KZ (financial businesses, excluding holding companies) and Sector O (governmental activities).
Note: SME: small and medium-sized enterprise; ISE: intermediate-sized enterprise; LE: large enterprise.
a) Number of entities within the company's scope of consolidation as defined by the French Economic Modernisation Act (LME), whether or not the balance sheet appears in the FIBEN database.
b) Number of balance sheets in the FIBEN database used in the study.

# Appendix 3
## Income statement of non-financial corporations

### Income statement
(as a % of turnover)

| | SMEs | | ISEs | | LEs | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| **Turnover** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| (+) Change in finished and in-process inventory | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 |
| (+) capitalised production | 0.3 | 0.4 | 0.4 | 0.3 | 1.3 | 1.4 | 0.8 | 0.8 |
| **Production and resales** | **100.4** | **100.4** | **100.4** | **100.4** | **101.5** | **101.5** | **100.9** | **100.9** |
| (–) Purchase cost of resales | 34.1 | 34.3 | 36.8 | 36.8 | 24.7 | 24.2 | 31.0 | 30.7 |
| (–) Cost of materials used | 11.8 | 12.0 | 15.1 | 14.9 | 22.1 | 21.4 | 17.2 | 17.1 |
| (–) Purchases and external expenses | 23.6 | 23.6 | 23.3 | 23.6 | 29.2 | 29.9 | 25.8 | 26.3 |
| **Value added, Banque de France** | **30.9** | **30.5** | **25.3** | **25.1** | **25.5** | **26.0** | **26.8** | **26.7** |
| (+) Operating subsidies | 0.2 | 0.2 | 0.2 | 0.2 | 0.6 | 0.7 | 0.4 | 0.4 |
| (–) Wages and social security payments | 21.4 | 20.9 | 16.0 | 15.9 | 15.4 | 15.4 | 17.1 | 16.9 |
| (–) External employee expenses | 1.3 | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| (–) Taxes, levies and similar payments | 1.3 | 1.2 | 1.8 | 1.7 | 3.0 | 3.0 | 2.2 | 2.1 |
| (+) Other operating income and expenses | -0.4 | -0.4 | -0.2 | -0.2 | 0.0 | -0.2 | -0.2 | -0.2 |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | **6.7** | **6.8** | **6.1** | **6.1** | **6.1** | **6.5** | **6.2** | **6.4** |
| **Net operating income** | **4.3** | **4.4** | **3.8** | **3.7** | **3.2** | **3.6** | **3.7** | **3.8** |
| **EBITDA** | **6.7** | **6.8** | **6.1** | **6.1** | **6.1** | **6.5** | **6.2** | **6.4** |
| (+) Other non-operating transactions | 2.0 | 2.0 | 4.1 | 4.4 | 5.1 | 6.3 | 4.0 | 4.7 |
| **Total EBITDA** | **8.7** | **8.7** | **10.1** | **10.5** | **11.2** | **12.8** | **10.2** | **11.1** |
| (–) Interest and similar expenses | 0.8 | 0.7 | 1.4 | 1.5 | 1.9 | 1.9 | 1.5 | 1.5 |
| (–) Employee profit-sharing | 0.1 | 0.1 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 |
| (–) Income tax | 1.1 | 1.1 | 0.8 | 0.9 | 0.6 | 0.8 | 0.8 | 0.9 |
| **Cash flow from operating activities** | **6.7** | **6.8** | **7.6** | **7.8** | **8.6** | **9.9** | **7.8** | **8.5** |
| (–) Depreciation, amortisation and provision expenses | 3.3 | 3.4 | 4.2 | 4.3 | 5.0 | 5.6 | 4.3 | 4.6 |
| **Net cash flow from operating activities** | **3.4** | **3.4** | **3.5** | **3.5** | **3.6** | **4.3** | **3.5** | **3.8** |
| **Net accounting profit/loss** | **4.0** | **4.0** | **3.9** | **3.7** | **4.0** | **5.0** | **3.9** | **4.3** |

Source: Banque de France, FIBEN database, November 2020.
Scope: Non-financial corporations as defined in France’s Economic Modernisation Act (LME): all trading businesses but those in Sector KZ (financial businesses, excluding holding companies) and Sector O (governmental activities).
Note: SME: small and medium-sized enterprise; ISE: intermediate-sized enterprise; LE: large enterprise.

# Appendix 4
## Cash flow statement of non-financial corporations

### Cash flow statement

(per 100 euros of turnover)

| | SMEs | | ISEs | | LEs | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| **EBITDA** | **6.7** | **6.9** | **6.1** | **6.1** | **6.8** | **6.6** | **6.5** | **6.5** |
| (–) change in OWCR | 0.9 | 0.4 | 0.7 | 0.5 | -0.1 | 0.2 | 0.5 | 0.3 |
| **(=) Cash flow from operating activities** | **5.8** | **6.5** | **5.4** | **5.6** | **6.9** | **6.4** | **6.0** | **6.2** |
| (+) Other non-operating transactions | 2.4 | 2.3 | 5.2 | 6.0 | 11.3 | 9.5 | 6.9 | 6.6 |
| (–) Interest expenses | 0.8 | 0.7 | 1.5 | 1.6 | 2.4 | 2.2 | 1.7 | 1.7 |
| (–) Profit-sharing | 0.1 | 0.1 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 |
| (–) Dividends paid | 2.6 | 2.6 | 4.5 | 4.3 | 9.7 | 7.3 | 6.1 | 5.2 |
| (–) Income tax | 1.1 | 1.2 | 0.8 | 1.0 | 0.6 | 0.9 | 0.8 | 1.0 |
| (–) change in NOWCR | 0.1 | -0.4 | 0.1 | -0.2 | 0.1 | -0.2 | 0.1 | -0.2 |
| **(=) Total cash flow** | **3.5** | **4.6** | **3.5** | **4.6** | **5.2** | **5.5** | **4.0** | **4.9** |
| **Net cash flow from capital expenditures** | **4.0** | **4.1** | **7.8** | **6.4** | **12.7** | **11.4** | **8.6** | **8.0** |
| Change in equity financing | 0.6 | 0.5 | 3.2 | 1.1 | 1.5 | -1.3 | 1.9 | -0.1 |
| (+) Change in long-term debt | 0.8 | 0.9 | 1.7 | 1.2 | 5.1 | 6.7 | 2.8 | 3.5 |
| *o/w bank loans* | *0.1* | *0.1* | *1.1* | *0.3* | *0.9* | *0.1* | *0.8* | *0.2* |
| (+) Change in cash liabilities | 0.0 | 0.0 | 0.1 | 0.8 | -1.1 | 2.0 | -0.4 | 1.2 |
| **(=) Net cash flow from financing** | **1.4** | **1.4** | **5.0** | **3.1** | **5.5** | **7.4** | **4.3** | **4.6** |
| **Change in cash assets** [a] | **0.9** | **1.9** | **0.7** | **1.3** | **-2.0** | **1.5** | **-0.3** | **1.5** |
| **Net change in cash** [b] | **0.9** | **1.9** | **0.6** | **0.5** | **-0.9** | **-0.5** | **0.1** | **0.3** |

Source: Banque de France, FIBEN database, November 2020.
Note: SME: small and medium-sized enterprise; ISE: intermediate-sized enterprise; LE: large enterprise.
OWCR: operating working capital requirement; NOWCR: non-operating working capital requirement.
a) Change in cash assets = Total cash flow +Net cash flow from financing – Net cash flow from investments.
b) Change in net cash = Change in cash assets – Change in cash liabilities.

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