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## PRESS RELEASE

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### **Analysis of the population of non-financial corporations with negative economic profitability**

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This article describes the characteristics of firms with negative economic profitability. Analysis of the pattern of profitability during the period from 1999 to 2008 on the basis of the annual accounts of non-financial corporations shows that, year after year, one in ten firms makes a loss, and in the case of SMEs that figure is actually as high as one in four firms. These findings require further investigation.

Only a minority of firms with negative economic profitability during the period 1999-2008 record a negative result year after year (1.3%). The ratio is highest in the "Real estate activities" sector, where 4.3% of firms record a loss each year. For the majority of non-financial corporations (85.6%) the period of negative economic profitability does not persist for longer than 4 years. For 37.2% of firms, the negative result is actually an exceptional occurrence which is corrected in the following year.

Negative economic profitability is relatively more common for firms in the non-manufacturing sectors than in manufacturing industry, and especially in the "Real estate activities" sector and the "Accommodation and food service activities" sector. The only manufacturing industry sector featuring a relatively large number of firms with a negative profitability is the "Textiles, clothing and footwear" sector. Sectors with relatively few firms recording negative profitability are the metallurgy and metalworking industry, and the construction industry.

Analysis by firm size, distinguishing between large firms and SMEs, reveals that it is SMEs that are proportionately the most affected by negative economic profitability.

If age is considered, it is clear that this is not a factor in the case of SMEs. Conversely, large firms with negative economic profitability are 2 to 3 years younger, on average, than other firms. In the "Energy, water supply and waste" sector and in the "Chemicals and pharmaceuticals" sector, the difference between the median age of large firms as a whole and the large firms with negative profitability is actually 3 to 4 years.

In regard to regional location, the Brussels Capital Region has the highest ratio of firms with a negative profitability. That is also the only geographical entity where the number of loss-making firms is more than half the total number of firms, whereas in the provinces roughly one in four firms (23.4%) fails to generate revenue. However, it should be noted that firms with multiple places of business often have their registered office in the Brussels Capital Region, so that the regional interpretation must be treated with due caution.

For most firms, the negative sign of the economic profitability ratio can be attributed to the firm ending the financial year with an operating loss. Within that population, as many as 33.1% of large firms and 44.9% of SMEs have insufficient turnover to generate value added. In the case of large firms, in particular, there are considerable sectoral variations, and the "Construction", "Energy, water supply and waste" and "Real estate activities" sectors have a larger proportion of firms with negative value added. That could indicate that firms in those sectors apply a low profit margin.

Under the alarm bell procedure, loss-making firms have to compare their net assets with their authorised capital. Compliance with this statutory procedure is very important, both for the firm's survival and for the potential liability of the directors and managers. In the case of 39.8% of large firms and 45.2% of SMEs with negative economic profitability in 2008, the net assets had fallen to less than half of the authorised capital, so that the general meeting must be convened within two months of establishment of the loss. In the "Accommodation and food service activities" sector, that ratio is noticeably higher and concerns 63.1% of large firms and 62% of SMEs. Ultimately, 30.8% of the large firms and 42.1% of the SMEs with negative economic profitability could be confronted with an application to the court for dissolution of the company.