Improving Access to Capital for Portuguese Companies
A SURVEY OF UNLISTED COMPANIES
Improving Access to Capital for Portuguese Companies: A Survey of Unlisted Companies
ABOUT THIS REPORT

Following the 2008 global financial crisis and the subsequent sovereign debt crisis in Europe, the Portuguese government took important steps to relaunch the economy by addressing the capitalisation of companies and the recovery of investment. However, with a remaining high dependence on bank loans, a decreasing number of listed companies, lack of new listings and scant presence of institutional investors, Portuguese capital markets have not developed to their fullest potential. The Portuguese economy would therefore greatly benefit from further efforts to develop more diversified and integrated capital markets.

Against this background, the Portuguese Securities Market Commission (CMVM) submitted a request for support to the Directorate-General for Structural Reform Support (DG REFORM) of the European Commission to undertake a comprehensive review of capital markets in Portugal. The OECD was designated as implementing partner for the project. Through analysis and policy recommendations, the review will provide guidance to national decision-makers in their efforts to create a regulatory environment where capital markets can support business sector dynamics. An agenda that has only become more urgent with the onset of the current Covid-19 crisis, where economic recovery to a large extent will depend on the ability to strengthen corporate balance sheets and provide business with access to patient capital for forward looking investments.

Although the data and the analyses in this report were developed before the outbreak of Covid-19, the report identifies prevailing structural strengths and weaknesses of the Portuguese corporate sector and their conditions for capital market financing. Given the central role that capital markets will need to play in recapitalising Portuguese companies hit by the Covid-19 crisis, the final review will also help Portuguese authorities to adopt measures that improve the ability of capital markets to support the recovery.

As a first step towards the review, the OECD conducted in 2019 an extensive survey of how unlisted non-financial Portuguese companies’ use and perceive market-based financing. The OECD Survey on Access to Finance in Portugal covered large unlisted companies and some smaller companies that were considered to have growth potential. This report summarises the survey results and discusses them with additional firm- and transaction-level data from the OECD Capital Market Series dataset.

Based on this report and the complementary report on “Understanding Delistings from the Portuguese Stock Market”, the next step in developing the OECD Capital Market Review of Portugal will be to review the functioning of capital markets, provide international comparisons and identify policy recommendations on how to improve corporate access to capital in Portugal.

This report is part of the OECD Capital Market Series, which informs policy discussions on how capital markets can serve their important role to channel financial resources from households to productive investments in the real economy.

To prepare this report, the OECD Secretariat has greatly benefitted from consultations with representatives of relevant Portuguese authorities, business organisations and corporate executives. A detailed description of data sources and the methodology for data collection and
analysis are provided in the Annex. The OECD Secretariat welcomes any comments and suggestions.

The report was prepared by a team led by Mats Isaksson, Head of Corporate Governance and Corporate Finance Division within the OECD Directorate for Financial and Enterprise Affairs, composed of Serdar Çelik, Adriana De La Cruz and Alejandra Medina. Sandra Oliveira coordinated the execution and prepared the preliminary results of the survey. This report was produced with the financial assistance of the European Commission via the Directorate General for Structural Reform Support (DG REFORM).
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**ACRONYMS AND ABBREVIATIONS**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>chief executive officer</td>
</tr>
<tr>
<td>CMVM</td>
<td>Comissão do Mercado de Valores Mobiliários (Portuguese Securities Market Commission)</td>
</tr>
<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>HGF</td>
<td>high-growth firm</td>
</tr>
<tr>
<td>IPO</td>
<td>initial public offering</td>
</tr>
<tr>
<td>NPL</td>
<td>non-performing loan</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PPP</td>
<td>purchasing power parity</td>
</tr>
<tr>
<td>ROE</td>
<td>return on equity</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>research and development</td>
</tr>
<tr>
<td>SME</td>
<td>small and medium-sized enterprise</td>
</tr>
<tr>
<td>SPO</td>
<td>secondary public offering (follow-on offering)</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

The Portuguese business sector was hit hard by the global financial crisis and the subsequent sovereign debt crisis in Europe. The aggregate sales of the corporate sector dropped by almost 9% in 2009, when the economy experienced the largest fall in GDP since 1975. After a recovery in 2010, aggregate sales growth turned negative again between 2011 and 2013, when the overall economy also contracted.

Since 2013, Portugal has gone through significant economic adjustments. Thanks to the implementation of structural reforms and more favourable global economic conditions, the economy has improved markedly in recent years. The recovery is also reflected in an increase in the share of high-growth firms, which reached 25% after 2014. A level that is even higher than the pre-crisis average.

However, business sector productivity remains low in Portugal and the weak productivity dynamic is seen as a drag on economic growth and development. In fact, by building on past reforms, there is now a good basis for additional reforms that can help to close the productivity gap and put Portugal on a path for long-term sustainable growth. In particular, Portugal can lift its productivity by implementing policies that improve corporate access to long-term, market-based financing, such as equity capital and corporate bonds.

Some key findings:

- In Portugal, 95.2% of all non-financial firms in 2016 were micro-firms, while small and medium-sized enterprises accounted for 4% and 0.6%, respectively. About 0.1% of the firms had more than 250 employees. While micro-firms, generally have the lowest level of labour productivity, it is particularly low in Portuguese micro-firms at USD 25.3 thousand (2016, PPP) per person employed. This is one of the lowest levels in Europe, and significantly below the productivity levels for similar firms in France, Germany, Spain and Italy. This productivity gap is also observed between the large Portuguese firms and their European peers.

- An important reason for the weak performance of the Portuguese business sector between 2011 and 2013 was the high share of loss-making companies. In 2012, the share of companies reporting losses reached its peak with 42% of all firms having negative net income. Since then, the share of loss-making firms has declined and was 32% in 2016. However, this was still twice the share of loss-making firms in Germany.

- From 2009 to 2014, Portugal had more fading firms – defined as companies with 3-year annualised sales growth below minus 10 per cent – than high-growth firms – defined as those companies reporting 3-year annualised sales growth over 10 per cent. After 2014 however, the trend reversed as Portugal has experienced an increase in high-growth firms along with a substantial decline in fading firms. As a result, in 2016 the difference between the share of high-growth firms and the share of low-growth firms was the largest since 2006.

- Banks have historically played a dominant role in financing the Portuguese business sector. However, after 2012 the banking system in Portugal experienced a transition aiming to improve the quality of their balance sheets resulting in an economy-wide deleveraging process. The aggregate leverage level in the Portuguese corporate sector steadily decreased, after reaching 37% in 2012. However, the dependence on
short-term financing, including short-term debt, trade credit and other current liabilities is still high compared to other European economies like Germany and Spain.

- Portugal has recently lowered barriers for corporate exits and restructuring. This has resulted in a significant fall of non-performing loans and so-called non-viable zombie companies. While the 2008-2009 global financial crisis momentarily resulted in a historical record of zombie companies, representing 12% of the country’s total equity capital, their number and share of equity capital rapidly decreased in the years that followed. In 2016 zombie companies attained their minimum level since 2005 representing only 1.1% of companies and 2.1% of all equity capital.

- The OECD Survey on Access to Finance in Portugal shows that internal funds – in the form of retained earnings – is the most important source of financing for 85% of the companies. More than 80% of the companies also stated that the availability of internal funds positively affects their investment plans.

- Bank loans and credit lines, rank second and third in importance as sources of funding. With respect to bank loans, a majority of the companies responded that their long-term relationship with banks was the main reason for choosing bank loans over other sources of financing. Lower cost of loans and the fact that banks know their business were indicated by almost half of the companies. Importantly, almost one-third of the companies mentioned that they choose bank loans because they saw no other option.

- Both equity and debt market-based financing were indicated as important sources of financing by 30% of the companies. However, a large majority of the unlisted companies indicated that they did not consider the possibility of becoming a listed company. Eleven companies responded that they are planning a public listing within the next three years.

- Among the companies that were not planning a listing within the next three years, the most common explanation provided was that “our shareholders do not want to share control with others”. Costs related to listing, low liquidity levels and complexity of the regulation were also mentioned by more than half of the companies.

- Importantly, 30 companies (12%) mentioned that they had collected information about the listing process in the past but stopped the process before doing an IPO. More than three-quarters of these companies mentioned complex regulation, high corporate governance and compliance requirements and low market liquidity as reasons for not continuing the listing process.

- 48 companies (19%) mentioned that they are planning to issue debt securities (including corporate bonds, commercial papers and notes) in the near future. All responding companies mentioned diversification of funding sources and improved access to other capital market financing as the main reasons for planning to issue debt.

- More than 80% of the responding unlisted companies mentioned that simplified disclosure and compliance requirements, simplified listing procedures, a framework for alternative segments and flexible corporate governance requirements would contribute to creating a successful stock market ecosystem in Portugal.
PART I. THE PORTUGUESE CORPORATE SECTOR

As in any market economy, in Portugal the business sector accounts for the bulk of the country’s production of goods and services and employs most of the workforce. Business corporations are also a key source of investment in fixed capital as well as in research and development (R&D). To finance their activities and investments, corporations need financing. In order to understand the specific financing needs of corporations and any impediments to obtain the right kind of financing it is essential to first map the characteristics of the business sector.

Based on firm-level data and using several indicators, this part provides an overview of the Portuguese corporate sector’s financing structure, its demographic and size distribution. It also provides comparable analyses of firm performance and viability.

1.1. Overview of the Portuguese economy

The Portuguese economy was severely affected by the 2008 global financial crisis and the subsequent sovereign debt crisis in Europe. The economy contracted in four of the five years between 2009 and 2013. In the following years, Portugal went through a dramatic economic adjustment. Thanks to structural reforms implemented and the more favourable global economic conditions, the economy markedly improved in recent years.

With a real growth of 3.5% in 2017 (Figure 1, Panel A), the GDP growth rate was back to its pre-crisis levels and above the Euro Area average (2.7%). The economy continued growing in 2018, albeit at a slower pace than in 2017. The Portuguese economy is estimated to continue expanding at a stable pace with a ratio of around 2% in 2019 and 2020 (OECD, 2019). Importantly, the real GDP per capita in Portugal has surpassed its pre-crisis level as the GDP per capita was 4% higher in 2018 than in 2008 (Figure 1, Panel B). One of the key factors behind the recovery has been the strong export performance, mostly driven by the tourism sector.

The labour market has also benefitted from the economic recovery, with headcount employment growing at 3.3% in 2017 – a historical peak since 1983 – and 2.3% in 2018 (Figure 1, Panel A). It is projected to decline to 0.7% by the end of 2020 (OECD, 2019). Unemployment rate has fallen from 16% in 2013 to 7% in 2018. However, in 2017, the long-term unemployment rate was 4.4%, which is 2.7 percentage points higher than the OECD average.
Despite structural reforms, particularly with respect to the labour market, the business sector productivity remains low in Portugal. Figure 2 shows that over the last two decades, both labour and multifactor productivity growth have been sluggish. After the sharp fall in 2008 and 2009, and minor drops in 2012 and 2014, multifactor productivity growth returned to a positive trend in 2015, but with both productivity measures generally fluctuating around zero. In fact, between 2013 and 2017 the average labour productivity growth in Portugal was 0.3% compared to 0.9% in Germany and France. The weak productivity dynamic in Portugal has been seen as a drag on long-term economic growth (Alves, 2017).

Many explanations have been offered for Portugal’s low productivity growth, including misallocation of capital and labour in non-tradable sectors and from the survival of zombie firms, the insufficient market orientation of R&D investments, low competitive pressure to innovate in non-tradable sectors, limited diffusion of knowledge and technology, strict regulations in some service sectors, judicial inefficiency and low trust in public procurement.
among Portuguese firms (Alves, 2017; OECD, 2019). It has also been argued that a large share of outstanding credit granted by the Portuguese banking sector is allocated to firms with low productivity and that bank credit is more skewed towards unproductive firms than labour and capital (Azevedo et al, 2018).

The amount of research and development (R&D) is generally seen as a strong indicator of an economy’s innovative capacity, which in turn contributes to productivity growth and business sector dynamism. Figure 3 provides an overview of gross expenditures in R&D in Portugal and some European countries by source of financing. It shows that gross expenditure in R&D in Portugal is 1.3% of GDP, which is relatively low compared to 3% in Germany and 2.2% in France, but almost the same levels as in Italy, Spain and Greece.

Moreover, the contribution to R&D from business enterprises is only 44%, which is significantly lower than their contribution in Germany and France. At the same time, the government accounted for 43% of the R&D expenditure in 2016. Government support is implemented in Portugal either through direct funding or through R&D tax credits. Many economies, such as Germany and Spain, rely more on direct support from the government, while in Portugal, R&D tax credits outweigh the direct support (Jens, 2015; OECD, 2017c).

Figure 3. R&D expenditure by source of financing in selected European economies (2016 or latest year available, as percentage of GDP)

Source: OECD Main Science and Technology Indicators Database.

Another key challenge for Portugal is the high level of public debt. Between 2007 and 2014, public debt to GDP went up 62 percentage points, reaching 133% by the end of 2014 (Figure 4). Following improvements in fiscal balance in recent years, the debt-to-GDP ratio has declined and was 122% of GDP in 2018. As a result of the efforts to reduce debt levels, the observed economic recovery and increased robustness of the banking sector, Portuguese sovereign debt was upgraded in 2018 from non-investment grade to investment grade resulting in a decrease in interest rates. After peaking at 17% at the beginning of 2012, long-term interest rate on government bonds (10 year benchmark) was below 0.5% as of end 2019. With the help of expected declines in interest payments thanks to relatively lower rates and planned improvements in the fiscal balance, the debt-to-GDP ratio is forecasted to further decrease to 114% in 2021 (OECD, 2019).
As shown in Panel A of Figure 5, bank loans to non-financial firms were stable at around 65% of GDP in Portugal during the 2008-2012 period. Since 2013 bank loans to non-financial firms have shown a steady decline and represented 36% of GDP at the end of 2018. In addition, the stock of non-performing loans as share of total loans in the banking system has declined from its peak at 17.5% in 2015 to 9.4% in 2018, thanks to the establishment of non-performing loan (NPL) reduction plans. At this level, the stock of NPL remains a concern and weighs on banks’ profitability and solvency (OECD, 2019).

Beyond labour market reforms and the deleveraging process of the banking system, Portugal has also undertaken in recent years structural reforms aiming to facilitate firm restructuring and insolvency procedures. Steps have also been taken to reduce unnecessary red tape for businesses (OECD, 2019). This is a good basis for closing the productivity gap and put Portugal on a path for long-term sustainable growth. In particular, Portugal can lift its productivity by implementing policies that improve the availability and allocation of long-term, market-based financing. This is particularly important for growth-oriented companies that need
capital and are willing to take the risks associated with research, innovation, development and market expansion.

1.2. Business demographics

Small and medium-sized enterprises (SMEs) account for over 95% of the number of firms in the OECD area. Portugal is no exception in this regard. However, there are wide differences among countries with respect to the role of SMEs in total employment and productivity levels as well as the distribution of SMEs among different sub-groups. Figure 6 classifies all companies in six EU countries into four groups based on the number of employees: micro (1 to 9 employees); small (10 to 49 employees); medium (50 to 249 employees); and large (over 249 employees).

The figure shows that in Portugal, 95.2% of all non-financial firms in 2016 were micro-firms, while small and medium-sized enterprises accounted for 4% and 0.6%, respectively. Only about 0.1% of all Portuguese firms had more than 250 employees.

While micro-firms in general have the lowest level of labour productivity, it is particularly low in Portuguese micro-firms at USD 25.3 thousand (2016 PPP) per person employed. After Greece, this is the second lowest level among the six countries shown in the figure. This is also the case for Portuguese small firms for which the labour productivity is at USD 45.1 thousand per person employed whereas in countries like France or Germany it is USD 58.5 thousand and USD 59.4 thousand, respectively. Importantly, the average labour productivity level for large firms in Portugal is by far the lowest at USD 61.2 thousand. In the other five economies shown in the figure, it ranges between USD 77 and USD 104 thousand. The large proportion of unproductive micro-firms, combined with low productivity across the remaining groups result in an overall low productivity of the entire economy.
Figure 6. Labour productivity and employment distribution by firm size, in 2016

Note: The blue vertical line presents the overall labour productivity. Labour productivity is defined as value added at factor costs divided by the number of persons employed, presented in thousands of USD (2016, PPP) per person employed. Numbers in parenthesis correspond to the share of each size group in the total number of companies. 
Source: OECD SDBS Structural Business Statistics.
Figure 7 presents labour productivity by firm size among some European countries for selected industries. Differences in productivity across size classes are particularly high in the wholesale trade and retail industry in Portugal, Greece, Italy and Spain. Whereas in Germany and France the largest dispersion in productivity across size classes is found in the manufacturing industry. For example, in the wholesale trade and retail industry, a medium-sized firm is almost 3 times more productive than a micro-firm in Portugal and 8 times more productive in Greece. In Germany and France, the productivity gap is smaller even in the relatively more dispersed industry, manufacturing. For instance, a large manufacturing firm in Germany and France is 2.5 times more productive than a micro-firm. Productivity gaps across companies of different size are less pronounced in the construction industry in Portugal. Indeed, a large construction firm in Portugal is only 2.5 times more productive than a micro-firm.

Figure 7. Relative labour productivity by firm size for selected industries (Large firms = 100, 2016)

Source: OECD Structural Business Statistics.

1.3. Firm level analysis and company classification

In order to analyse the past business dynamics in Portugal and selected peer countries, the following sections in this part of the report build on firm-level data obtained from the ORBIS database. The analysis includes only non-financial companies and companies with more than
10 employees. The purpose of choosing a size threshold of 10 employees is twofold: first, data coverage typically increases with firm size which means that the coverage for smaller firms is less reliable and hampers comparability. Second, the focus of this report is on market-based financing and micro-firms are, in general, unlikely to tap capital markets.

The OECD-ORBIS Corporate Finance dataset includes financial and ownership information of non-financial companies between 2005 and 2016. To assess the representativeness of the data against the official statistics, Table 1 compares the coverage of the OECD-ORBIS Corporate Finance dataset with the Eurostat business statistics. While there is no significant difference in terms of the distribution of firms among different size groups, the OECD-ORBIS dataset generally has higher coverage than Eurostat.

**Table 1. Comparison of the OECD-ORBIS Corporate Finance dataset with the Eurostat dataset in 2016**

<table>
<thead>
<tr>
<th>Country</th>
<th>Category</th>
<th>Share in total</th>
<th>Number of companies</th>
<th>Share in total</th>
<th>Number of companies</th>
<th>Share in total</th>
<th>Number of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>Eurostat</td>
<td>84.8%</td>
<td>33 553</td>
<td>13.1%</td>
<td>5 190</td>
<td>2.0%</td>
<td>808</td>
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<tr>
<td>Portugal</td>
<td>Orbis</td>
<td>89.2%</td>
<td>56 103</td>
<td>9.1%</td>
<td>5 744</td>
<td>1.7%</td>
<td>1 083</td>
</tr>
<tr>
<td>France</td>
<td>Eurostat</td>
<td>84.0%</td>
<td>125 240</td>
<td>13.2%</td>
<td>19 657</td>
<td>2.8%</td>
<td>4 199</td>
</tr>
<tr>
<td>France</td>
<td>Orbis</td>
<td>89.8%</td>
<td>232 139</td>
<td>8.0%</td>
<td>20 635</td>
<td>2.2%</td>
<td>5 613</td>
</tr>
<tr>
<td>Germany</td>
<td>Eurostat</td>
<td>83.8%</td>
<td>373 276</td>
<td>13.6%</td>
<td>60 505</td>
<td>2.6%</td>
<td>11 762</td>
</tr>
<tr>
<td>Germany</td>
<td>Orbis</td>
<td>76.3%</td>
<td>155 773</td>
<td>19.6%</td>
<td>39 953</td>
<td>4.1%</td>
<td>8 343</td>
</tr>
<tr>
<td>Greece</td>
<td>Eurostat(1)</td>
<td>-</td>
<td>16 549</td>
<td>-</td>
<td>C</td>
<td>-</td>
<td>C</td>
</tr>
<tr>
<td>Greece</td>
<td>Orbis</td>
<td>77.6%</td>
<td>6 545</td>
<td>17.6%</td>
<td>1 483</td>
<td>4.8%</td>
<td>405</td>
</tr>
<tr>
<td>Italy</td>
<td>Eurostat</td>
<td>88.2%</td>
<td>170 290</td>
<td>10.1%</td>
<td>19 518</td>
<td>1.7%</td>
<td>3 249</td>
</tr>
<tr>
<td>Italy</td>
<td>Orbis</td>
<td>90.0%</td>
<td>285 729</td>
<td>8.4%</td>
<td>26 683</td>
<td>1.6%</td>
<td>5 086</td>
</tr>
<tr>
<td>Spain</td>
<td>Eurostat</td>
<td>87.3%</td>
<td>125 846</td>
<td>10.5%</td>
<td>15 072</td>
<td>2.2%</td>
<td>3 185</td>
</tr>
<tr>
<td>Spain</td>
<td>Orbis</td>
<td>88.0%</td>
<td>151 612</td>
<td>9.6%</td>
<td>16 602</td>
<td>2.4%</td>
<td>4 083</td>
</tr>
</tbody>
</table>

**Note:** (1) Eurostat values for Greece are confidential.

**Source:** OECD-ORBIS Corporate Finance dataset, Eurostat business statistics, see Annex for details.

**Company categories in Portugal**

One potential weakness in analysing the investment and financing structure of the business sector in an economy is treating the whole non-financial corporate sector as one entity without taking into account differences with respect to key characteristics, such as size, listing status and industry. From a capital market perspective, it may also be important to know if a company is part of a larger company group. To overcome these shortcomings, non-financial companies are divided into four categories (see Table 2), which are used throughout Part I:

- **Category 1: Listed companies**

This category includes, on average, about 50 non-financial listed corporations per year with median assets of around EUR 275 million. Listing status may have a strong impact on a corporation’s financing conditions, since being listed on a stock exchange requires the implementation of certain transparency and disclosure standards as well as other corporate

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1 Non-financial companies include corporations that are fully or partially owned by the Portuguese public sector. According to OECD (2014), however, Portugal did not report any listed state-owned enterprise and reported only 33 majority owned non-listed enterprises and 51 statutory corporations and quasi-corporations in 2014. These 84 state-owned enterprises were responsible for 70 981 employees that represented 3.8% of total employment in the country that year.
governance practices. The corporation has already passed a certain threshold in terms of its formal and institutional structure, which may make outside investors more willing to provide funds and facilitates access to a wide range of financing options, including private equity as well as public and private debt markets. As shown in Figure 8, listed companies in 2016 accounted for 11% of the employment in the economy and generated 23% of aggregated sales.\(^2\) It should, however, be noted that since the number of listed non-financial companies is low and the listed corporate sector is mainly dominated by a few large companies, in some cases the results for listed companies presented below may be driven by a few large companies.

- **Category 2: Large unlisted companies**

This category includes on average about 433 large non-financial corporations with assets larger than EUR 87 million (USD 100 million) in 2018 real terms. Their median asset size was EUR 160 million on average. In contrast to publicly listed companies, less information is available for large unlisted companies which reduces available financing options or may result in financing conditions on less favourable terms. However, companies in this category can generally be classified as professionally managed formal companies. In 2016, large unlisted companies share in total sales and employment was around 28% and 16% respectively.

- **Category 3: Small and mid-sized companies part of a group**

This category includes all small and mid-sized enterprises controlled by a listed (Category 1) or a large unlisted corporation (Category 2). SMEs based in Portugal but controlled by a non-Portuguese company or by a Portuguese financial company are also included in this category. Category 3 contains on average 3,304 companies per year with median assets of EUR 5.2 million. Since the financial results of SMEs part of a group are consolidated into a parent company, unconsolidated accounts are used in the analysis to identify their own structure. In general, the information available for SMEs is relatively limited, but being part of a group can help subsidiaries to access financing at better conditions compared to independent SMEs. One theoretical explanation for the existence of economic groups is that they provide a financing advantage in setting up new firms when the pledgeability of cash flows to outside financiers is limited (Almeida and Wolfenzon, 2006). By creating an internal capital market, an economic group can also improve the available financing options for group companies.

- **Category 4: Independent small and mid-sized companies**

The last category includes all SMEs identified to be controlled by individuals and those with no ownership information available. For this group, only unconsolidated accounts are reported. The group of Independent SMEs is the largest in terms of number of companies (around 52,300 companies per year), but the smallest in terms of size (median assets around EUR 456,000). The information available for these companies is limited and unlike SMEs part of a group, Independent SMEs do not benefit from financing advantages related to a group structure. In 2016, they employed more than any other company group with 40% of the

\(^2\) The category classification is based on different financial reports available for companies (consolidated and unconsolidated reports). Large companies in the universe commonly report consolidated financial statements as well as unconsolidated financial statements. For the listed and large unlisted non-financial company categories, consolidated accounts are considered, if available.
workforce being employed in this category. However, they accounted for only 23% of the total sales.

Table 2. Company categories of the Portuguese non-financial business sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Category 1: Listed companies</th>
<th>Category 2: Large unlisted companies</th>
<th>Category 3: SMEs part of a group</th>
<th>Category 4: Independent SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of companies</td>
<td>Median assets (EUR K)</td>
<td>Number of companies</td>
<td>Median assets (EUR K)</td>
</tr>
<tr>
<td>2005</td>
<td>63</td>
<td>199 099</td>
<td>367</td>
<td>166 244</td>
</tr>
<tr>
<td>2006</td>
<td>59</td>
<td>207 263</td>
<td>411</td>
<td>161 723</td>
</tr>
<tr>
<td>2007</td>
<td>54</td>
<td>178 159</td>
<td>450</td>
<td>153 379</td>
</tr>
<tr>
<td>2008</td>
<td>50</td>
<td>229 493</td>
<td>469</td>
<td>160 682</td>
</tr>
<tr>
<td>2009</td>
<td>49</td>
<td>251 387</td>
<td>476</td>
<td>161 391</td>
</tr>
<tr>
<td>2010</td>
<td>46</td>
<td>315 281</td>
<td>492</td>
<td>160 918</td>
</tr>
<tr>
<td>2011</td>
<td>45</td>
<td>281 525</td>
<td>451</td>
<td>161 593</td>
</tr>
<tr>
<td>2012</td>
<td>49</td>
<td>241 930</td>
<td>427</td>
<td>160 846</td>
</tr>
<tr>
<td>2013</td>
<td>47</td>
<td>231 130</td>
<td>429</td>
<td>156 119</td>
</tr>
<tr>
<td>2014</td>
<td>44</td>
<td>401 140</td>
<td>418</td>
<td>155 343</td>
</tr>
<tr>
<td>2015</td>
<td>44</td>
<td>367 175</td>
<td>401</td>
<td>158 754</td>
</tr>
<tr>
<td>2016</td>
<td>44</td>
<td>401 471</td>
<td>405</td>
<td>157 412</td>
</tr>
</tbody>
</table>

Note: SMEs controlled by a parent company with assets under EUR 87 (USD 100) million are not taken into account for the group analysis - however, they are included when studying the economy as a whole.

Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Figure 8. Sales and employment share by company categories in Portugal

A. Sales

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed companies</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>Large unlisted companies</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>Independent SMEs</td>
<td>30%</td>
<td>60%</td>
</tr>
</tbody>
</table>

B. Employment

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed companies</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>Large unlisted companies</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>Independent SMEs</td>
<td>30%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Note: For each category, sales and employment numbers are presented as share of economy totals. Calculations for the total economy take into account the group structure of companies and avoid considering companies that are already consolidated in the accounts of domestic non-financial parent companies. The figure does not show the category SMEs part of a group as these companies are accounted for in the financial statements of their parent company. The categories in this figure are subsamples of the economy constructed for characterisation and comparison purposes and do not consider parent companies with less than EUR 87 (USD 100) million assets. As a result, they do not add up to 100%.

Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.
1.4. The weakness in overall company performance

The Portuguese business sector was hit hard by the global financial crisis and the subsequent sovereign debt crisis in Europe. The aggregate sales of the corporate sector dropped by almost 9% in 2009, when the economy experienced the largest fall in GDP since 1975. After a recovery in 2010, aggregate sales growth turned negative again between 2011 and 2013. As shown in Figure 9, aggregate return on equity (ROE – net income over total shareholders’ equity) has also fallen significantly since 2008 and was almost zero in 2012. While the average ROE was 11% between 2005 and 2007, it was less than 3% between 2011 and 2014. However, some improvement can be noted in 2015 and 2016.

Figure 9. Sales growth, performance and GDP growth in Portugal

Other European economies have also seen substantial declines in the ROE of the business sector. Indeed, none of the six European countries shown in Figure 10 has reached its pre-crisis ROE level. In 2016, Portuguese firms’ ROE was relatively lower than those of the corporate sectors in France, Germany and Spain, and slightly higher than those in Greece and Italy.

Figure 10. Return on equity in Portugal and selected European economies

Source: OECD-ORBIS Corporate Finance dataset and OECD Economic Outlook database, see Annex for details.

Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.
One driving force behind the low performance of the Portuguese business sector between 2011 and 2013 was the high share of loss-making companies (negative net income). Figure 11 shows the share of firms with negative net income in the total number of firms in Portugal and other European countries for the period between 2005 and 2016. In 2012, the share of companies reporting losses reached its peak in Portugal, with 42% of the firms having negative net income. Since then, the share of loss-making firms has declined and was 32% in 2016.

Italy, Greece and Spain have also experienced similar high levels of loss-making firms in the 2011-2013 period. In Germany, however, the share of companies reporting losses has been significantly lower with a declining trend since 2009. For example, in 2016, the share of loss-making firms in Portugal was twice the share in Germany, 32% versus 16%. These results are in line with the observed performance of the corporate sector in Figure 10, countries with better return on equity show a lower share of loss-making firms.

![Figure 11. Share of loss-making companies in Portugal and selected European companies](image)

Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

To have a closer look at industry differences with respect to company performance, Figure 12 shows a similar analysis for Portugal by industry. Given the severity of the global financial crisis, all industries shown in Figure 12 saw an increase in the share of companies reporting losses in 2012 compared to 2006. Following an economic recovery after 2012, the ratio of loss-making firms fell significantly for all industries but one from 2012 to 2016. The agriculture, forestry and fishing industry had more loss-making companies in 2016 than in 2006. At the same time, manufacturing, is the industry that shows the least loss-making companies during the three periods.
Figure 12. Share of Portuguese companies with negative net income (loss) by industries

Note: The industry classification corresponds to the 1-digit SIC classification. Construction industry here mainly corresponds to the following categories: General Contractors — Single-Family Houses; Electrical Work; Plumbing, Heating and Air-Conditioning; and Special Trade Contractors, Not Elsewhere Classified. Construction industry does not include real estate companies.

Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

1.5. Firm growth dynamics and high-growth companies

One way to look at firm growth dynamics in an economy is to analyse the distribution of companies among different growth clusters. Panel A of Figure 13 shows the growth distribution of Portuguese firms among six clusters based on annualised sales growth. Over the 2005-2007 period, more than half of the companies in the economy reported positive sales growth. In the worst years in terms of aggregate sales growth following the crisis, 2009 and 2011-2012, 60% and 65% of the firms experienced negative sales growth. This proportion decreased gradually to 39% in 2016. One important observation from the figure is that the dispersion in sales growth distribution is high in Portugal. While on average 28% of the companies reported exceedingly high positive annual sales growth (over 10%), 30% of the companies reported on average exceedingly high negative sales growth.

In a cross-country comparison, the pattern of distribution of sales growth among different growth clusters in Portugal is more evident. As shown in Panel B, Germany and France have a lower share of high-growth and low-growth companies compared to Portugal. Germany has the highest share of companies with sales growing in real terms between -10% and 10%. In other words, Germany actually has the lowest share of firms growing over 10% a year, but at the same time accounts for the lowest share of firms with sales growing less than -10% a year. The case of the German business sector is exceptional, since the economy is mainly constituted of large and relatively mature companies that are more stable (OECD, 2017).
Figure 13. Sales growth distribution for Portuguese and selected European economies

<table>
<thead>
<tr>
<th>Year</th>
<th>Portugal (2005-2016)</th>
<th>European countries (2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td></td>
<td></td>
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<tr>
<td>2006</td>
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<td>2007</td>
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<td>2014</td>
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<tr>
<td>2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Focusing only on the companies that have high and low growth, Figure 14 defines two groups of companies: high-growth firms and fading firms. High-growth firms (HGFs) are defined as those companies reporting 3-year annualised sales growth over 10 per cent. Measuring growth over a 3-year period allows identifying companies with continuing growth rates and excluding temporary changes. Similarly, fading firms are defined as companies with 3-year annualised sales growth below minus 10 per cent. The figure plots the share of HGFs and fading firms for Portugal in bars and the black dots represent the difference between the two groups. Between 2006 and 2008, the share of HGFs in the total number of firms was on average 24%. Between 2009 and 2014, the average share of HGFs dropped by 10 percentage points to 14%. However, since 2015, the share of HGFs has recovered reaching 26% in 2016, the highest levels since the pre-crisis period. At the same time, the share of fading firms has also seen a significant decline after 2013 and was 15% in 2016.

Figure 14. Share of high-growth and fading firms in Portugal

Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Figure 15 shows the share of HGFs and fading firms by category of companies in the Portuguese business sector. Between the segments of large companies, listed companies have actually reported more fading firms than large unlisted companies. In fact, the segment of large unlisted companies was more resilient during the crisis period, with the highest share
of HGFs and the lowest share of fading firms. Interestingly, with the exception of 2010, the share of HGFs has always been higher for the large unlisted companies category compared to the listed companies’ category. Moreover, in 2016, the highest share of fading firms among the 4 categories was observed within the listed companies.

Over the period, SMEs part of a group recorded on average 22% of HGFs compared to 18% within independent SMEs. Similarly, SMEs part of a group showed a lower average share of fading firms compared to independent SMEs. In 2012 and 2013, independent SMEs were the most affected companies by the crisis, and the share of fading firms in the category increased to almost 40%.

Figure 15. Share of high-growth and fading firms in Portugal, by category of companies

A. Listed companies

B. Large unlisted companies

C. SMEs part of a group

D. Independent SMEs

Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

The country comparison in Figure 16 highlights some of the differences between Portugal and other European economies. Germany, for example, has a modest share of HGFs, but, at the same time, a small share of fading firms resulting in a positive difference between HGFs and fading ones. At the other end, in countries like Italy, the share of fading firms outnumbered the share of HGFs. However, it is worth mentioning that, in 2016 Portugal, together with Spain and Germany, show the largest and positive differences between the shares of HGFs and fading firms.
Figure 16. Share of high-growth and fading firms in Portugal and selected European economies

Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

1.6. Corporate finance and capitalisation

Banks have historically played a dominant role in financing the Portuguese business sector. However, after 2012 the banking system in Portugal experienced a transition aiming to improve the quality of their balance sheets resulting in an economy-wide deleveraging process. According to the European Commission statistics, bank loans to non-financial firms accounted for 35% of the GDP by the end of 2018.

Figure 17 shows the leverage ratio (total financial debt over total assets) and the cost of debt for non-financial corporations in Portugal. The cost of debt is estimated as interests paid over total financial debt. Leverage in the corporate sector reached 37% in 2012. In the aftermath of the financial crisis, however, there has been a steady decrease in total bank lending to the non-financial corporate sector in Portugal (Figure 5) and the aggregate leverage level for the Portuguese business sector has also been declining. This is in line with the policy objective to reduce the vulnerability of the Portuguese economy to adverse shocks by continue deleveraging the corporate and household sectors (Banco de Portugal, 2018). Moreover, the cost of debt, in parallel to the global low interest rate environment, has remained at low levels since 2010 compared to the previous period.

Figure 17. Leverage and cost of debt for Portuguese non-financial companies

Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.
Two of the factors that may influence a company’s access to different sources of finance are its listing status and its affiliation to a company group. Following the company categories established in Section 1.3, Figure 18 illustrates leverage levels, capitalisation levels and cost of debt for the four different categories of companies. The figure is based on companies holding financial debt. Almost all firms categorised as large corporations reported financial debt every year as shown in the figure, whereas only 60% of SMEs have some type of financial debt.

Capitalisation level is calculated as total shareholders’ equity in relation to total assets. The figure shows how the capitalisation level of listed companies fell sharply during the global financial crisis of 2007 and 2008, mainly due to poor performance. The decline was 4 percentage points, from 22% in 2005 to 18% in 2008. Since then, the level has returned to pre-crisis values and reached its maximum level in 2016 at 33%. During the 2007-2008 period large unlisted companies also experienced a drop in capitalisation level of 4 percentage points. However, large unlisted companies’ capitals levels were strongly affected during the sovereign crisis and had a sluggish recovery afterwards. Listed companies, on the contrary, injected equity to their balance sheets by raising significant amounts of capital through secondary public offerings (SPOs). Indeed, in 2007 and 2008 already listed companies could raise EUR 2.4 billion, and between 2012 and 2014 EUR 4.5 billion by using the stock market for secondary public offerings (see Figure 29, Panel D).

Figure 18. Debt, capitalisation and cost of debt for company categories in Portugal

Notes: Capitalisation level is defined as: Shareholders’ funds as a share of total assets. Debt levels are also presented as a share of total assets. Calculations include only companies that reported financial debt. Unconsolidated financial statements are used in the calculations for SMEs part of a group and independent SMEs. Calculations for long-term and short-term debt include only financial debt (interest bearing debt) and exclude other forms of financing received from the parent company by SMEs part of a group.

Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.
In Portugal, the leverage level for listed companies is slightly higher than the one for large unlisted companies. In fact, leverage for listed companies was on average 42.3% compared to 41.6% for unlisted companies over the 2005-2016 period. In addition, listed companies also have a higher share of long-term debt and a higher cost of debt compared to large unlisted companies. The higher cost may be a result of their higher outstanding volume of debt and the higher share of more expensive long-term financing. Overall, listed companies have higher equity capital levels and use more long-term debt financing.

Panel C and D of Figure 18 compare the two categories of SMEs; those that are independent and those that belong to a company group. Interestingly, SMEs that are part of a group have slightly higher leverage and are less capitalised compared to independent SMEs. Indeed, in 2016, independent SMEs was the best capitalised category of companies, reaching a capitalisation of 36%. Whilst capitalisation levels have been on the rise for independent SMEs, leverage has declined. It is worth noticing that, in terms of debt maturity, independent SMEs had in 2005 three percentage points higher share of its financial debt due in less than one year compared to SMEs part of a group, and in 2016 the share of short-term financial debt for both groups was the same.

**Figure 19. Capitalisation, debt levels and cost of debt, cross-country comparison**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2010</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Capitalisation</td>
<td><img src="#" alt="Bar Chart" /></td>
<td><img src="#" alt="Bar Chart" /></td>
<td><img src="#" alt="Bar Chart" /></td>
</tr>
<tr>
<td>B. Leverage</td>
<td><img src="#" alt="Bar Chart" /></td>
<td><img src="#" alt="Bar Chart" /></td>
<td><img src="#" alt="Bar Chart" /></td>
</tr>
<tr>
<td>C. Current liabilities</td>
<td><img src="#" alt="Bar Chart" /></td>
<td><img src="#" alt="Bar Chart" /></td>
<td><img src="#" alt="Bar Chart" /></td>
</tr>
<tr>
<td>D. Cost of debt</td>
<td><img src="#" alt="Bar Chart" /></td>
<td><img src="#" alt="Bar Chart" /></td>
<td><img src="#" alt="Bar Chart" /></td>
</tr>
</tbody>
</table>

*Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.*
In 2016, the leverage level in the Portuguese business sector was higher than in the European countries shown in Figure 19. While the leverage ratio in Portugal was 33%, in Italy, France and Germany, it fluctuated between 20% and 25%. However, the capitalisation level of the Portuguese business sector showed an increase and reached 33% in 2016, very similar to the capitalisation levels in France and Germany (Panel A).

Moreover, even if the dependence on short-term financing, including short-term debt, trade credit and other current liabilities has decreased over the years and attained 35% in 2016 compared to 40% in 2005, it remains high compared to other European economies like Germany and Spain where the current liabilities are, on average, 4 percentage points lower than in Portugal (Panel C). The dependence on short-term financing may prevent corporations from planning and undertaking long-term investments. It also makes companies vulnerable to changes in credit conditions, in particular when the changes are sudden, unexpected and large in magnitude.

The aggregate cost of debt financing has fallen to low levels in European markets since the financial crisis. Panel D in Figure 19 shows that, particularly in Germany, France and Portugal the cost of debt has decreased since 2010 and was in 2016 lower than the pre-crisis averages (2005). Particularly, in 2016, Portugal witnessed the lowest cost of debt (4.4%) compared to the other selected European economies.

1.7. “Zombie companies” and capital misallocation

The observed productivity slowdown over the past decade in many OECD economies has triggered a discussion about its underlying causes and potential consequences for future economic growth. Underperforming firms – that in a competitive market would have exited the market – remain alive, causing an increasing resource misallocation in the economy. The so-called zombie firms are defined as mature companies that are consistently incapable of covering their interest payments (Adalet McGowan et al., 2017). It is argued that the presence of such firms in the economy not only prevents new entrants, but also deprives their most promising industry peers of finance.

![Figure 20. Zombie companies and equity capital allocation in Portugal](source.png)

Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

---

3 Zombie companies’ definition here follows Adalet McGowan et al. (2017). Zombie companies are defined as firms older than 10 years that during 3 consecutive years are not able to cover their interest payments with their operating income. The age restriction is imposed to differentiate between real zombie firms and young innovative firms.
Among OECD countries, Portugal has experienced a considerable fall in exit and restructuring barriers (Gouveia et al., 2018). And since the financial crisis, there has also been a fall of non-performing loans and zombie companies. While the financial crisis momentarily resulted in a historical record of zombie companies representing 12% of the country’s total equity, their number and share of equity capital rapidly decreased in the years that followed. As illustrated in Figure 20, both the share of zombie companies and the equity capital allocated to these companies declined dramatically since 2010 and in 2016 they attained their minimum level since 2005 with only 1.1% of companies representing 2.1% of equity.

Figure 21 plots the share of zombie companies for the unlisted categories of companies defined in Section 1.3 and Figure 22 shows the share of the equity capital associated to these companies. The analysis reveals important differences between the three unlisted categories of zombie companies. First, the share of zombie companies within the large unlisted segment is the highest across groups. However, the share of zombie companies has been continuously falling for all three groups since 2010, reflecting the major efforts to improve the financial health of the corporate sector.

Second, the two categories of SMEs show a slightly lower share of zombie corporations compared to large unlisted companies. Third, the share of zombie companies among independent SMEs and since 2009 the capital associated to these firms have been lower compared to SMEs part of a group. Overall, the analysis suggests that the concept of zombie companies is not primarily a small company phenomenon since within large unlisted companies the share of zombie companies is high.
Figure 22. Share of capital sunk in zombie companies in Portugal (2005-2016)

Note: The bars show the share of capital sunk in zombie companies within each group.
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.
PART II. UNLISTED COMPANIES’ USE AND PERCEPTION OF MARKET-BASED FINANCING

To inform the capital market review of Portugal, the OECD has conducted an extensive survey of how unlisted non-financial Portuguese companies use and perceive market-based financing. The OECD Survey on Access to Finance in Portugal covered large unlisted companies and some smaller companies that were considered to have growth potential. By submitting answers mainly from board members and key executives, 297 companies responded to the survey. This part summarises the survey results and discusses them by complementing it with firm- and transaction-level data from the OECD Capital Market Series dataset.

2.1. The universe of companies participating in the survey

Responding companies were classified into three groups according to their reported sales and employment in 2017: small (sales below 50 million or employees below 100); medium (sales between EUR 50 and EUR 100 million or employees between 100 and 500); and large (sales over EUR 100 million or employees over 500). Large companies accounted for 41% of the respondents (Figure 23, Panel A). Companies with sales between EUR 50 and 100 million accounted for 18% of the respondents, and companies with sales under EUR 50 million represent 41% of the respondents. Companies are more evenly distributed between the three size groups with respect to the number of employees (Figure 23, Panel B).

Figure 23. Respondent companies characterisation

A. Companies by sales

<table>
<thead>
<tr>
<th>Sales Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>41%</td>
</tr>
<tr>
<td>Medium</td>
<td>18%</td>
</tr>
<tr>
<td>Large</td>
<td>41%</td>
</tr>
</tbody>
</table>

B. Companies by employees

<table>
<thead>
<tr>
<th>Employees Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>33%</td>
</tr>
<tr>
<td>Medium</td>
<td>37%</td>
</tr>
<tr>
<td>Large</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

With respect to overseas activities, 43% of the surveyed companies indicated that they exported goods or services in 2017 to another country; whereas the remaining 57% did only focus their activities in the local market. Among the exporting companies, 43% were large companies compared to 33% of large companies within the non-exporting group (Figure 24, Panel A). Notably, small companies represent 36% of the exporting group outweighing medium-sized companies. The share of small and large unlisted companies in the non-exporting group of companies is similar. Panel B of Figure 24 shows that over 30% of the

4 Only when export activities account for more than 10% of sales.
respondent companies belong to the manufacturing industry, followed by wholesale trade (19%), services (18%), and telecommunication and utilities (17%).

**Figure 24. Size and industry distribution of exporting companies**

A. Exporting companies

<table>
<thead>
<tr>
<th>Industry</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>No sales reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
<td>32%</td>
<td></td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td></td>
<td></td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Telecomm and Utilities</td>
<td></td>
<td></td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td></td>
<td></td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Retail Trade</td>
<td></td>
<td></td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td></td>
<td></td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Mining</td>
<td></td>
<td></td>
<td>0.4%</td>
<td></td>
</tr>
</tbody>
</table>

**B. Industry distribution**

- Mining: 0.4%
- Agriculture: 2%
- Retail Trade: 4%
- Construction: 8%
- Telecomm and Utilities: 17%
- Services: 18%
- Wholesale Trade: 19%
- Manufacturing: 32%

Source: OECD Survey on Access to Finance in Portugal, OECD-ORBIS Corporate Finance dataset, see Annex for details.

To explore in some detail the financial characteristics of respondent companies, Figure 25 depicts their median return on equity (ROE), leverage and capitalisation ratios during the period 2005-2016. The ROE of the small companies was on average 10.8% over the period. This was above the average ROE of medium-sized and large companies with levels of 9.7% and 8.7% for the same period, respectively. Indeed, the large companies category has witnessed a decrease of performance in terms of ROE, attaining a level of 8.6% in 2016, 3 percentage points lower than in 2005 (Figure 25, Panel A).

Interestingly, medium-sized companies have shown the lowest levels of leverage and the highest levels of capitalisation after the crisis, when compared to the other two company categories presented below. In 2016, the median leverage ratio of the medium-sized companies reached a level of 12% and a median capitalisation ratio of 45.5%. In addition, when taking a closer look at the share of companies with negative equity levels, medium-sized companies, overall, show the lowest levels (Panel D of Figure 25). Meaning that within this group the number of companies with negative equity values is the lowest. Surprisingly, the large company group has shown an increase in the share of companies in need of equity since 2010. In fact, in 2016, large companies accounted for the largest share of companies with negative equity (5%).
2.2. Companies’ structure overview: ownership and management

Financing decisions depend on a number of company characteristics. Importantly, subsidiaries with a strong parent company may have an advantage in accessing financing, either from the parent company itself or by benefitting from implicit guarantees from the parent company when borrowing. It is also common that company groups create internal capital allocation mechanisms that may improve the available financing options for the companies within the group. In addition, some subsidiaries may be prevented from taking autonomous financing decisions. Among the surveyed companies, 56% (167) were autonomous companies and 38% (112) were subsidiaries of a parent company. Among the subsidiaries, 18% were subsidiaries of a Portuguese company, 15% were subsidiaries of an EU company and 5% were subsidiaries of a non-EU company. In addition, 6% of them identified themselves as to be a public sector company.

With respect to their ownership structure, 73% of the respondent companies had a large shareholder holding over 50% of the voting rights (Figure 26, Panel B). In 36.4% of the companies, the largest shareholder was another non-financial company and in 35.6% of the companies, the largest shareholder was the founder (Figure 26, Panel C).

Figure 26 Panel D identifies the largest shareholder in companies with and without a majority owner. In companies where the largest shareholder holds more than 50% of the voting rights, 42% have a non-financial company as the largest owner. In 31% of the companies, the largest
The owner is the founder and in 12% of the companies it is the public sector. In 22% of the companies where the largest shareholder does not hold over 50% of the voting rights, the largest shareholder is a non-financial company. 49% have the founder as the largest shareholder and 21% an individual (other than the founder).

Companies were also asked whether the CEO also exercises other responsibilities in the company (Figure 27). In 60% of the companies, the CEO is also the chairman of the board. In almost 15% of the companies, the CEO combines the roles of chairman, the largest shareholder and the founder.

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.
2.3. Corporations' financing sources

While unlisted firms typically do not use market-based financial instruments, they still have several short- and long-term options to finance their activities, including an initial public offering (IPO). Companies in the survey were therefore asked how important different funding sources were for them. Figure 28 shows the share of companies that reported as important or very important each funding source. Not surprisingly, 85% of the companies reported that internal funds – in the form of retained earnings – was the most important source of financing.

Bank loans and credit lines, both granted by banks, rank second and third in importance as sources of funding. The high dependence on banks as a source of financing is not a recent phenomenon in Portugal (Gameiro et al., 2007). Both equity and debt market-based financing were indicated as important sources of financing by around 30% of the companies.
Equity capital

While external equity funding is mentioned as an important or very important source of financing by 78 (32%) of the unlisted companies in the survey (Figure 29, Panel A), history shows that few Portuguese unlisted companies have taken the step to obtain external equity financing through an IPO process.

To gain perspective about how relevant capital raising activities are in Portugal and to compare it with other European markets, Panels B-D in Figure 29 provide information for the overall trends in IPOs and SPOs. Panel B in Figure 29 shows the total IPO proceeds and the number of IPOs by all Portuguese companies. Between 1996 and 2003, 19 companies in Portugal raised EUR 6.4 billion and the average IPO size was EUR 339 million. In the following period, 2004-2011, 6 Portuguese companies raised EUR 4.1 billion and the average proceeds was EUR 686 million. Since 2012, only 4 companies have gone public raising in total EUR 717 million with an average size of EUR 179 million by IPO.

Figure 29. External equity, perception and usage

Panel A is based on the OECD Survey on Access to Finance in Portugal. Panels B, C and D are based on the OECD Capital Market Series dataset, Thomson Reuters Eikon, see Annex for details.

---

5 Not survey companies – all Portuguese listings.
Since 2000, with the exception of 2008 and 2015, the number of delisted firms was always higher than the number of newly listed firms in Portugal. The result has been a significant decline in the number of listed companies from 148 to 54 in two decades. Although there has been a general trend in OECD economies in terms of a decline in new listings in the stock market, the trend was more accentuated in Portugal compared to other economies. Panel C of Figure 29, compares IPO proceeds in Portugal and in selected European peers. While the share of proceeds by Portuguese companies was 3.4% of the total proceeds in the countries shown in the figure over the first period, their share declined to less than 1% over the 2012-2018 period.

Companies that are already listed can also raise additional external equity capital through a secondary public offering (SPO or follow-on offering). Panel D of Figure 29, presents SPO proceeds raised by Portuguese companies since mid-1990s. The dots in the figure represent the share of non-financial companies over the total number of companies doing an SPO each year. The equity capital raised through SPOs since 1996 was almost 5 times the amount raised through IPOs. The total amount raised through SPOs was EUR 28 billion between 1996 and 2003 and in the following two periods, 2004-2011 and 2012-2018, it decreased to EUR 13 billion and EUR 14 billion, respectively. Importantly, the share of equity raised by non-financial companies has substantially declined, in particular since the 2008 global financial crisis. While between 1996 and 2003, 80% of the proceeds were raised by non-financial corporations, their share has halved since 2008.

**Debt securities**

Corporations can also benefit from capital markets by issuing debt securities, including corporate bonds, commercial papers and notes. Similar to external equity, debt securities was mentioned as an important or very important source of financing by 77 (31%) of the respondent companies in the survey. However, debt securities were more frequently classified as “very important” compared to external equity (Figure 30, Panel A).

Panel B of Figure 30 shows the actual amount of corporate bonds (excluding commercial papers and other short-term instruments) issued by all Portuguese companies since 2000. As seen in the figure, the corporate bond market has been dominated by financial companies as the share of the non-financial sector in total proceeds has only been 18% during the past two decades.

Non-financial companies’ use of corporate bonds has not only been limited in absolute terms. It has also decreased compared to European peer economies. Since 2000, the share of Portuguese companies’ issuances has always been less than 2% of the total proceeds among the group of economies in the figure and close to 1% in the most recent period (Figure 30, Panel C).
PART II. UNLISTED COMPANIES’ USE AND PERCEPTION OF MARKET-BASED FINANCING

Figure 30. Debt securities perception and usage of corporate bonds

A. Importance of debt securities

<table>
<thead>
<tr>
<th>Number of firms, share in total</th>
<th>Very important</th>
<th>Important</th>
<th>Not important</th>
</tr>
</thead>
<tbody>
<tr>
<td>169, 69%</td>
<td>41, 17%</td>
<td>36, 14%</td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

B. Corporate bond issuances

Note: Corporate bond data in Panel B and C include only bonds that are underwritten by an investment bank.
Source: OECD Capital Market Series dataset, Thomson Reuters Eikon, see Annex for details.

Bank loans

Bank loans were indicated as the second most important financing source by the surveyed companies. Bank loans were mentioned as important or very important by 67% of the companies. Companies were also asked about the main reasons for choosing bank loans over other sources of financing. As seen in Panel A of Figure 31, the long-term relationship with banks is the main reason for the majority of companies for choosing bank loans. The long-term relationship, the lower cost of loans and the fact that banks know their businesses were also indicated as important factors by almost half of the companies. Importantly, 52 out of 178 companies mentioned that they choose banks loans because no other options were available.

Companies were also asked with how many banks they had a relationship. Over half of the companies (60%) responded that they had relationships with 1 to 5 banks and 22% of the companies reported to have a relation with 6 to 10 banks. Only 6% of the companies responded to have relations with more than 10 banks.
PART II. UNLISTED COMPANIES’ USE AND PERCEPTION OF MARKET-BASED FINANCING

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Improving Access to Capital for Portuguese Companies: A Survey of Unlisted Companies

Figure 31. Main reasons for choosing bank loans as one of the main sources of financing

A. Reasons behind bank loans preference

- Long-term relationship with banks: 150
- Lower cost of loans: 50
- Bank knows business: 100
- Alternative sources are time-consuming: 0
- Others: 50
- No other option: 0

B. Number of banks

- No relationship: 33
- 1 to 5: 160
- 6 to 10: 59
- Over 10: 15

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

2.4. Investment plans

When asked about their investment plans for the coming 3-year period compared to the past 3-year period, 75% of the firms said that they would invest, at least, as much as before (Figure 32, Panel A).

Figure 32. Investment outlook for the coming three years and the impact of financing sources

A. Investment outlook for the next 3 years

- Higher: 106
- Same: 98
- Lower: 54

B. Impact of financing sources on investment plans

- Positive: 273
- No difference: 231
- Negative: 231

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Figure 32 confirms that internal funds are seen as a crucial source to finance investment by the Portuguese corporate sector. More than 80% of the companies said that the availability of internal funds positively affects their investment plans. Interestingly, this result contrasts the evidence provided by Farinha (1995), which, based on firm-level data for Portugal for the 1986-1992 period showed that the availability of internal funds had only limited impact on large firms’ investment decisions. Many respondent companies in the OECD survey, which was
carried out in 2019, are relatively large and a big majority of them indicated the importance of internal resources for their investment decisions. This attitude may be related to the continued deleveraging process in the banking sector and uncertainty about the availability of external financing since the 2008 global financial crisis. According to Banco de Portugal (2018), the portion of equity capital in Portuguese companies’ capital structures continued to increase in 2017, mainly through the retention of earnings.

To explore in more detail the link between the importance of different sources of financing and companies’ investment decisions, Figure 33 groups the respondent companies into three categories based on investment expectations in the next three years. “Source” indicates whether a financing option was mentioned as important by the group of companies and “Impact” indicates whether they have mentioned that the availability of a particular financing option positively affects their investment decision. For example, 55% of the companies that have indicated they would invest more in the next three years compared to the previous period consider external debt as an important source of financing. But only 28% say the availability of external debt would impact their investment decisions.

Notably, only 2% of the companies that are planning to invest “less” consider external equity as an important source of financing. However, almost 25% of the companies mentioned that its availability would positively impact their investment decisions.

Figure 33. Importance and impact over investment of different financing sources

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

2.5. Companies that planned or evaluated the possibility to be listed

As mentioned before, the number of listed companies in Portugal has declined over the last two decades. In the survey, the unlisted Portuguese companies were therefore asked whether they were planning to list in the next three years or if they had evaluated the possibility of going public in the past. Figure 34 reveals that a great majority of the respondent companies do not consider the possibility of becoming a listed company. Only 11 companies responded that they are planning a public listing, of which 6 indicated a national market listing and 2 indicated a listing abroad.
Figure 34. Companies planning to list on a stock exchange within the next 3 years

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

The 11 companies that stated they are planning to list on a stock exchange within the next three years were also asked to indicate their reasons to become a publicly listed company. 8 companies responded to that question, with 7 of them mentioning better visibility and prestige and 6 of them better external monitoring as one of the key reasons to list (Figure 35). A majority of the companies mentioned better access to other capital market sources, diversification of financing options, lowering cost of the capital and raising new capital to finance growth. None of the companies mentioned reducing company debt as a reason to become a listed company.

Figure 35. Reasons to become a publicly listed corporation

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Figure 34 above, also shows that out of the 259 companies in the survey that are not planning a listing within the next three years, 30 of them had collected information about the listing process in the past but stopped the process before doing an IPO. This group of 30 companies was also asked to identify the factors that led them not to complete the listing process. As shown in Figure 36, more than three-quarters of the companies mentioned complex regulation, high corporate governance and compliance requirements and low market liquidity as reasons to stop their listing process. At the same time, two-thirds of the companies
mentioned that banks offered better options. Importantly, the majority of the firms considered themselves too small, the process time consuming and the IPO costs higher than expected.

**Figure 36. Reasons to stop companies from continuing their listing process**

The companies that responded that they neither are planning a listing within the next three years, nor have collected any information about the listing process were asked about the reasons for their decision not to become a publicly listed company. 165 companies responded to the question and results are summarised in Figure 37. By far the most important reason mentioned is “our shareholders do not want to share control with others” (keep control). Listing related costs, low liquidity level and complexity of the regulation were also mentioned by more than half of the companies. It is also important to note that half of the companies mentioned that the reason behind their decision to remain unlisted is related to the fact that there is a lack of a supportive public equity market environment in Portugal. While 38% of the companies mentioned the lack of experience with capital market financing, only 22% mentioned transparency and disclosure requirements.

**Figure 37. Reasons for staying private**

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.
2.6. Debt securities issuance

Debt securities mainly refer to corporate bonds, commercial papers and notes. In general, debt securities issued by non-financial companies are simple in their structure, mostly non-subordinated, unsecured and with fixed interest rates. Issuers of short-term debt securities – commercial papers – are not subject to the mandatory requirement of rating nor to provisions of guarantee.6

To explore the Portuguese non-financial companies’ use and perception of the debt securities market, companies were asked whether they had issued any debt securities in the past and whether they still have a valid credit rating. Panel A in Figure 38 shows that 78 companies (31%) had issued debt securities in the past. At the same time, however, only 17 companies (7%) had a valid credit rating at the time of the survey (Panel B). This may be related to the fact that most companies issued commercial papers that do not require a credit rating.

![Figure 38. Past debt securities issuance and companies with a valid credit rating](image)

A. Companies that issued debt securities
253 companies

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>78</td>
<td>174</td>
</tr>
</tbody>
</table>

B. Companies with a valid credit rating
250 companies

<table>
<thead>
<tr>
<th>Rating</th>
<th>No rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>233</td>
</tr>
</tbody>
</table>

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Companies were also asked whether they plan to issue debt securities in the following 3 years (Figure 39, Panel A). 48 companies (19%) mentioned that they are planning to issue debt securities in the near future. Despite the improvements after the financial and the sovereign debt crises – regarding both country risk and market sentiment – debt security issuance remains not very significant, even for the largest companies (Banco de Portugal, 2018).

Panel B of Figure 39 displays the potential target markets for planned debt security issuances within the next three years. Compared to equity issuance, there seems to be a higher preference for country diversification as more than half of the companies mentioned that they would target both the Portuguese and foreign markets.

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6 Decree-Law No. 69/2004 of 25 March.
Companies that are planning to issue debt securities within the next three years were asked about their motives. 43 companies responded to the question and the results are summarised in Figure 40. Notably, diversification of funding sources and improved access to other capital market financing sources were mentioned by all companies. In addition, for more than 90% of the companies lowering the cost of debt and increasing their debt maturity were mentioned as important factors to issue debt securities. Raising capital to fund growth was indicated as an important reason by almost 80% of the companies.

Companies that are not planning to issue debt securities within the next three years were also asked the reasons for not doing so. As seen in Figure 41, out of 151 companies, 106 of them (68%) mentioned that bank financing is preferable. This is followed by low liquidity in the market, no need for external financing and lack of supportive environment. Similar to the reasons mentioned with respect to staying as a private company, disclosure and transparency requirements as well as being exposed to the public scrutiny do not appear as important factors.
PART II. UNLISTED COMPANIES’ USE AND PERCEPTION OF MARKET-BASED FINANCING

Figure 41. Reasons for not issuing debt securities

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

2.7. Alternative financing sources

The survey also explored the use and perception of different alternative financing options, including private equity and private debt. Over three-quarters of the companies have never used or are not planning to use any of the alternative financing options (Figure 42 Panel A). The 58 companies that have used or are planning to use alternative financing sources mostly mentioned private equity and private debt. The companies that have never used alternative financing were also asked to indicate the reasons behind their decision. Over half (53%) of the companies mentioned that they have access to other sources of financing and 46% mentioned that they do not need external funding. Around 15% of the companies indicated uncertainty regarding the use of alternative financing and high costs.

Figure 42. Use of alternative financing sources

A. Used or planning to use alternative financing sources

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

In Figure 43, the survey responses are complemented by data on the trends in private equity fundraising and investment in Portugal and some European economies. Fundraising refers to the process when a private equity firm raises funds from investors; investment refers to the use of funds by the private equity firm to invest in a company; and divestment refers to the
exit operation. Private equity fundraising has been on a downward trend in Portugal since 2012. However, investments by private equity funds in Portugal have been consistently higher than fundraising over the last 5 years. Panel B and Panel C of Figure 43 compare the relative size of the private equity industry in Portugal with the European Union aggregates and some selected countries. Both, the Portuguese share of fundraising and investment activities in Europe have been considerably lower than its share in European GDP since 2013.

Figure 43. Private equity trends in Portugal

A. Private equity trends in Portugal

B. Private equity trends in the European context

C. Investments as % of GDP (2014-2018 average)

D. Fundraising by region of origin

Source: Invest Europe / EDC.

Figure 44 summarises company responses to the question about how they perceive alternative financing sources compared to traditional financing sources. Most companies indicated that they see the providers of alternative financing sources, such as venture capital, private loans and private equity, more risk-willing than traditional finance providers. Most companies also see that the cost of alternative financing is higher than traditional sources. The results also show that alternative financing sources are perceived to be more flexible, but not simpler and faster to execute than traditional financing sources.
PART II. UNLISTED COMPANIES’ USE AND PERCEPTION OF MARKET-BASED FINANCING

Figure 44. Perception of alternative financing sources compared to traditional financing sources

<table>
<thead>
<tr>
<th>Category</th>
<th>Better</th>
<th>About the same</th>
<th>Worse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk appetite</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flexibility</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Speed of execution</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Simplicity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge of the business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Privacy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of capital</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Figure 45 illustrates that 24% of the respondent companies in the survey have been approached by private equity/venture capital firms interested in investing in them during the last three years.

Figure 45. Companies have/have not been approached by private equity firms during the last 3 years

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

2.8. Market environment

In the survey, companies were also asked if any of the market agents, like investment banks, the stock exchange and rating agencies, have contacted them at any point in time to provide them with information or to encourage them to use market-based financing. Figure 46 summarises the responses showing the number of firms that have been contacted to receive information about the listing process. Not surprisingly, investment banks are the most active agents in contacting companies to provide them with information about market-based financing. Companies also identified the stock exchange as the second agent that most frequently contacted them.
Figure 46. Market actors that approached companies to provide them with information about listing process

![Market actors chart](chart.png)

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.

Figure 47 displays Portuguese unlisted companies’ proposals for a thriving exchange listing environment. Panel A summarises issues related to the legal and regulatory framework and Panel B summarises relevant market aspects and costs. Simplified disclosure and compliance requirements, simplified listing procedures, a framework for alternative segments and flexible corporate governance requirements were indicated as important factors by more than 80% of the companies. The existence of dual class shares was not pointed as an important factor as might be expected, given that companies responded that one of the main reasons holding them back to list their shares was to lose control of the company.

Among market factors and related costs, companies indicated that tax incentives for investors and issuers are key in Portugal to nurture a successful stock exchange listing environment. More liquidity in the secondary market and factors indirectly promoting liquidity, such as increasing participation of institutional and retail investors and market research, were also perceived as important determinants to create a supportive listing environment. In fact, low secondary market liquidity has also been claimed as a reason why companies delist from the stock exchange. Moreover, having affordable advisory services was also pointed out as an important factor. The high cost of advisory services, might be particularly relevant for relatively small companies.
Figure 47. Important factors for creating a successful stock exchange listing environment

Panel A. Regulatory aspects

- Simplified disclosure / compliance
- Simplified listing procedures
- Framework for alternative segments
- Flexible corporate gov requirements
- Existence of dual class shares

Panel B. Market aspects and related costs

- Tax incentives for issuers
- Better support for market liquidity
- Affordable advisory services
- Tax incentives for investors
- Increased inst. investor participation
- Analyst coverage / market research
- Awareness programs for companies
- Increased retail investor participation

Source: OECD Survey on Access to Finance in Portugal, see Annex for details.
REFERENCES


ANNEX – DATA SOURCES AND METHODOLOGY FOR DATA COLLECTION

A.1. OECD Survey on Access to Finance in Portugal methodology

Description on survey sample construction and coverage

The OECD conducted a survey of how unlisted non-financial companies use and perceive market-based financing in Portugal. This survey focused on the Portuguese large unlisted companies, including large mid-sized companies, and aimed at mapping their key characteristics, their understanding of market-based financing and perception of barriers to access capital markets.

Companies were drawn from a universe of unlisted companies available in multiple databases (ORBIS, FactSet and Refinitiv). The criteria to select companies were the following:

- Large unlisted companies were selected based on their sales and assets.
- Companies with growth potential (3-year annualised sales growth over 10 per cent).
- Companies that delisted from the Portuguese stock exchange since 2000.

Companies’ contact information (names, address and email addresses) was collected from ORBIS, FactSet, Refinitiv and Bloomberg. Publicly available information was used to complement, verify and correct the information obtained from the commercial databases. The persons within the company invited to respond the survey were either the CEO, CFO, Chairman, Board members or key executives. In some cases, companies were contacted by phone asking for a general email address or the name of the appropriate person to respond the survey.

Survey methodology

The OECD launched an online questionnaire which was sent to 1,085 non-financial companies on December 5th 2018. As new contact information was obtained, the questionnaire was sent to additional 851 companies throughout December totalling 1,936 companies. The survey was available both in English and Portuguese and respondent were given the option to select their preferred language.

In order to increase the response ratio, paper copies of the questionnaire were also sent to 543 large companies in the mailing list. These companies were given three options for responding to the questionnaire: using the online tool, sending their answers by email or sending them by mail (post). Between the December 2018 and May 2019 period, 297 Portuguese unlisted companies participated in the survey including 17 delisted firms.

A.2. Company financial and ownership information

The information presented in Part I is mainly based on the OECD-ORBIS Corporate Finance database. It includes financial statement and ownership information for non-financial companies between 2005 and 2016.

Company categories construction

Part I shows the following four non-financial firm categories: Category 1 “Listed companies”, Category 2 “Large unlisted companies”, Category 3 “Small and mid-sized companies part of a group”, and Category 4 “Independent small and mid-sized companies”. The construction of the company categories is based on the ownership, industry, legal information and financial information tables.

The procedure starts by identifying all listed and unlisted companies with assets over USD 100 million in the entire ORBIS universe. Non-financial listed companies are classified immediately as Category 1
and large unlisted non-financial companies as Category 2. For these groups, the consolidated financial statements are used, if available.

The following step identifies the countries of interest and uses their ownership-country-year tables. ORBIS provides many records of owners at different points in time from different sources. Two criteria are used to clean the ownership information and to be left out with only one record for each firm-year observation: the largest owner is kept and the latest information is prioritised. The largest owner can be either the global ultimate owner at 50%, the global ultimate owner at 25%, or the largest direct owner with over 25% holdings. Once the sample has a unique firm-year record, owners are classified as corporations or natural persons.

Using the ownership records generated in the previous step, the routine starts by identifying the subsidiaries of the listed and large unlisted companies. Three types of companies are identified: 1) domestic subsidiaries with a local parent, 2) domestic subsidiaries with a foreign parent, and 3) companies controlled by a person. Some companies that are classified as subsidiaries in this step were already identified as large unlisted companies at the beginning. In these cases, since the subsidiary was already consolidated, its data were not used to avoid duplications. The domestic subsidiaries with a local parent in Category 1 or 2, or with foreign parents Category 1 or 2 are classified as Category 3. Please note that this category includes the non-financial domestic subsidiaries of financial domestic parent and foreign parents as these parents are excluded as they do not meet the industry requirement or because they are not incorporated in the domestic market under analysis. The companies where the largest owner is a person (over 25% ownership) are classified as Category 4.

Economy-wide calculations take into account the ownership structure of companies and avoid considering companies that are already consolidated in the accounts of domestic non-financial parent companies. Thus, economy wide calculations include companies from Category 1, Category 2, Category 4, companies without ownership information, and companies from Category 3 that had a foreign parent or a financial domestic parent.

**Financial information cleaning**

The company category classification described in the previous section also incorporates different types of financial reporting (consolidated and unconsolidated reports). Large companies in the universe commonly report consolidated financial statements as well as unconsolidated financial statements. For the listed and large unlisted non-financial company categories, consolidated accounts are considered, if available. For the remaining categories, unconsolidated financial statements are used.

The raw financial dataset contains several firm-year observations when a company has multiple consolidation codes or it reports for different purposes. To construct a panel with a unique firm-year observation, the following steps are applied:

1. Financial companies are excluded.
2. The fiscal year corresponds to the previous calendar year of the closing date whenever the closing date of the financial statement is before June 30th.
3. Financial statements covering a 12-month period are used, preferably.
4. When multiple observations within the same year exist, accounts with closing dates closer to year-end are preferred to accounts with older closing dates.
5. Published annual reports are preferred to local registry filings. Local Registry filings are preferred to unknown filing types.
6. Accounts using IFRS are preferred to those using GAAP, accounts using GAAP are preferred to those using unknown accounting practices.
7. For companies with multiple consolidation codes, the following criteria apply: for companies that release consolidated financial statements, C1 is preferred when both C1 and C2 exist; for companies that release unconsolidated statements the observation from annual reports are preferred over others.
8. Financial information is adjusted by annual EUR Consumer Price Index changes and information is reported in 2018 constant million EUR.
9. Companies with at least one observation showing negative assets or negative fixed assets are dropped from the sample.
10. Companies with equal or less than 10 employees are dropped from the sample.  
11. Financial statement information is winsorized at 1% for both tails within companies’ categories.  

**Industry classification**  
The OECD-ORBIS Corporate Finance uses the 1-digit SIC industry classification.  

<table>
<thead>
<tr>
<th>Standard Industrial Classification (SIC)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td></td>
</tr>
<tr>
<td>Mining</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
</tr>
<tr>
<td>Transportation, Communications, Electric, Gas and Sanitary service</td>
<td></td>
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<tr>
<td>Wholesale Trade</td>
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<tr>
<td>Retail Trade</td>
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<tr>
<td>Finance, Insurance and Real Estate</td>
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<tr>
<td>Services</td>
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<td>Public Administration</td>
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</table>

**A.3. Public equity data**  
The information on Initial public offering (IPOs) and secondary public offerings (SPOs) presented in Part II is based on transaction and/or firm-level data gathered from several financial databases, such as Thomson Reuters Eikon, Thomson Reuters Datastream, FactSet and Bloomberg.  
Considerable resources have been committed to ensuring the consistency and quality of the dataset. Different data sources are checked against each other and, whenever necessary, the information is also controlled against original sources, including regulator, stock exchange and company websites and financial statements.  

**Country coverage and classification**  
The dataset includes information about all initial public offerings (IPOs) and secondary public offerings (SPOs or follow-on offerings) by financial and non-financial companies for 5 European economies (France, Germany, Italy, Spain and Portugal) for the period from January 1995 to December 2018.  
All public equity listings following an IPO, including the first time listings in an exchange other than the primary exchange, are classified as a SPO. If a company is listed in more than one exchange within 180 days that transactions are consolidated under one IPO. The country breakdown is carried out based on the domicile country of the issuer.  

**Currency conversion and inflation adjustment**  
The IPO and SPO data, and related financial statement data, such as total assets before offering, are collected on a deal basis via commercial databases in current USD values. The information is aggregated at the annual frequency and, in some tables, presented at the year-industry level. Issuance amounts initially collected in USD were adjusted by US Consumer Price Index (CPI) and finally converted to 2018 EUR using the average exchange rate EUR/USD for 2018.  

**Exclusion criteria**  
With the aim of excluding IPOs and SPOs by trusts, funds and special purpose acquisition companies the following industry categories are excluded:  
- Financial companies that conduct trust, fiduciary and custody activities  
- Asset management companies such as health and welfare funds, pension funds and their third-party administration, as well as other financial vehicles
Companies that are open-end investment funds
Companies that are other financial vehicles
Companies that are grant-making foundations
Asset management companies that deal with trusts, estates and agency accounts
Special Purpose Acquisition Companies (SPACs)
Closed-end funds
Listings on an over-the-counter (OTC) market
Security types classified as “units” and “trust”
Real Estate Investment Trusts
Transactions with missing or zero proceeds

A.4. Corporate bond data

Data shown on corporate bond issuances in Part II is based on original OECD calculations using data obtained from Thomson Reuters Eikon that provides international deal-level data on new issues of corporate bonds, which are underwritten by an investment bank. This report shows information for Europe, as a region, and for France, Germany, Italy, Spain and Portugal. The database provides a detailed set of information for each corporate bond issue, including the identity, nationality and sector of the issuer; the type, interest rate structure, maturity date and rating category of the bond, the amount of and use of proceeds obtained from the issue.

The initial dataset covers observations in the period from 1 January 2000 to 31 December 2018. From this initial set, convertible bonds, deals that were registered but not consummated, preferred shares, sukuk bonds, bonds with an original maturity less than 1 year or an issue size less than USD 1 million are excluded.

The country breakdown is carried out based on the domicile country of the issuer. Issuance amounts initially collected in USD were adjusted by US Consumer Price Index (CPI) and finally converted to 2018 EUR using the average exchange rate EUR/USD for 2018.

A.5. Private Equity data

The main source of information for the private equity data is Invest Europe. The information provided by Invest Europe is made up of firms managing investment vehicles or pools of capital (Funds) and primarily investing equity capital in enterprises not quoted on a stock market. Firms are included in the analysis as long as at least one of the funds they manage qualifies to the inclusion conditions; however, only the activity of the qualifying funds is taken into consideration.

The countries included when referring to Europe statistics are: Austria, Baltic countries (Estonia, Latvia, Lithuania), Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Norway, Other CEE (Bosnia-Herzegovina, Croatia, North Macedonia, Montenegro, Serbia, Slovenia, Slovak Republic), Poland, Portugal, Romania, Spain, Sweden, Switzerland, Ukraine, United Kingdom.

The fundraising activities are classified according to the country that corresponds to the location of the advisory team of the fund. The amount reported under investments includes equity, quasi-equity, mezzanine, unsecured debt and secured debt. Secured debt amounts within all investments packages are removed, unless the debt originates from private equity funds. Investment activities are recorded according to the location of the portfolio company. Divestment amounts are recorded at cost (i.e. the total amount divested is equal to the total amount invested previously). Private equity statistics are collected in current euros and amounts are then adjusted by using Euro Consumer Price Index to express them in constant 2018 EUR.

The categories of private equity entities that are excluded from the Invest Europe Universe are: Fund of Funds, Hedge Funds, Real Estate, Project Financing/ Infrastructure, Secondary Funds, Distress Debt, Venture Credit, Participative Loans, Incubators, Accelerators, Business Angels and Holding companies.