



PRESS RELEASES

Croatian Institute of Immunology: where have things got stuck?

ANTO BAJO, PHD, Institute of Public Finance, Zagreb

MARKO PRIMORAC, PHD, Faculty of Economics and Business, Zagreb

The public is faced with a lot of contradictory information and dilemmas about the status of the Institute of Immunology in the government finance system. The Institute's financial position is unclear, as are arguments for its privatisation or possible reasons for staying in state ownership. This analysis is aimed at briefly clarifying the Institute's financial position and examining the justifiability of its privatisation vs. remaining in the state's portfolio.

The Institute is a joint stock company that needs to be restructured, recapitalised or privatised. The Institute of Immunology is a joint stock company engaged in the production, import and distribution of vaccines under Croatia's Mandatory Vaccination Programme. It is the only Croatian producer of immunobiological preparations, operating as a joint stock company in state ownership. Pursuant to the Government's Decision on establishing a *list of companies and other legal entities of strategic and special interest to the Republic of Croatia* (OG 94/2013), the Company has been classified under companies of special interest which need restructuring, recapitalisation or (full or partial) privatisation.

Privatisation of the Institute. The state owned 73.4% of the Institute's equity capital in 2014. As a result of the Company's long-standing financial problems, in April 2014, the Government issued a decision on its privatisation, and in January 2015, a Decision on **the initial price and implementation of the public tendering procedure for the purchase of 157,997 shares** (54.4% of equity) of the Company. After the sale of part of its stake (9.5% of equity), the Croatian Health Insurance Institute should retain its control package of shares (a minimum of 25% + 1 share). The second Public Call for Binding Tenders was published in 2014. During the first call for (non-binding) tenders, eight letters of intent were received, with only one binding offer submitted by 25 March 2015 (that of the counselling company Visia Croatica Ltd).¹ The pharmaceutical companies have withdrawn their offers, because a potential investor is required to invest a minimum of HRK 100m in the construction of a new facility to ensure obtaining a permanent production license, retaining production in the country and producing blood derivatives exclusively from locally collected plasma.

The Institute's financial position is extremely weak. The Institute has operated at a loss ever since 2010 (in 2014, it stood at HRK 21.1m). Total liabilities were high (HRK 125.6m in 2014, of which liabilities to banks and other financial institutions accounted for HRK 44m) (Tables 2 and 4). No company would be able to operate with such annual losses and liabilities. While long-term debt predominated with 69%,

¹ It is noteworthy, however, that four sets of bid documents were purchased during the call for binding tenders for the purchase of the shares, at a price of HRK 15,000 (three of them from foreign pharmaceutical companies and one from a counselling company Ltd).

short-term liabilities grew rapidly. Total revenues dropped from HRK 92m in 2010 to about HRK 20m in 2014 (Table 1). Expenditures also decreased in the said period, but at a slower pace (from HRK 104.5m to HRK 41m), as did operating expenses, from HRK 97.7m to 34.9m (see Table 6). Within operating expenses, material expenses and staff expenses dropped markedly (from HRK 49.1m to HRK 9.6m and from HRK 32.6m to HRK 17.3m respectively).

Liabilities grow while assets shrink. Long-term liabilities (mainly those to banks) went up from HRK 17.9m in 2010 to HRK 61.3m in 2012. The Company's total liabilities exceeded equity by 50% in 2014. Financial expenses (mainly interest expenses) rose from HRK 6.8m in 2010 to HRK 9.7m in 2013 (up 43%). After 2012, the Institute's long-term financial liabilities to banks and other financial institutions have decreased. However, this is not due to debt repayment, but due to the conversion of long-term debt into short-term debt (short-term liabilities to banks went up from HRK 1.9m in 2012 to HRK 13.7m in 2014).

The value of assets decreased sharply, from HRK 255m in 2010 to HRK 202m in 2014. This was due to reductions in the values of: short-term assets (mainly inventories), from HRK 44.1m to HRK 27.6m; short-term receivables, from HRK 17.5m to HRK 4.7m; and cash at bank and on hand, from HRK 20.2m to just slightly over HRK 250,000. *The average receivables collection period* increased from 70 days in 2010 to 95 days in 2014 (Table 5), whereas at the same time, the *average liabilities settlement period* increased from 375 to 1,050 days.

Insolvency accompanied by reduced activity and profitability. Almost 60% of the Institute's short-term liabilities in 2014 were intended for long-term asset financing, which is not desirable. The poor liquidity situation is further reflected in the cash-to-short-term-debt ratio which is almost equal to zero. The most liquid assets (cash) are currently sufficient to cover only a small share of short-term liabilities. **Business activity is weak.** The total asset and current asset turnover ratios, as well as the inventories and receivables turnover ratios have deteriorated markedly. **Profitability indicators:** gross and net profit margins, as well as return on assets (ROA) and return on equity (ROE) are negative. All the ratios confirm that the Institute's continued operation is seriously threatened.

The Institute is insolvent and is facing bankruptcy. The extent to which the state can and is allowed to financially support it is questionable (primarily due to the EU competition regulations). It is also debatable whether taxpayers are willing to okay the Government's spending over HRK 100m on financing the Institute's operation. In an environment of extremely high government debt, the only realistic option is to privatise the Company under more flexible terms, including investment insurance and, especially, the completion of the investment cycle.

Table 1 A summary of revenues and expenditures of the Institute, 2010-2014 (in million HRK)

	2010	2011	2012	2013	2014
Total revenues	91.9	93.0	66.2	48.5	20.2
Operating revenues	90.6	92.5	65.4	46.8	17.9
Financial revenues	1.3	0.5	0.8	1.7	2.3
Total expenditures	104.5	93.0	79.5	70.1	41.3
Operating expenses	97.7	87.6	74.0	60.5	34.9
Financial expenses	6.8	5.4	5.5	9.7	6.4
Net profit/loss for the period	-12.6	0.0	-13.3	-21.7	-21.1

Source: Financial statements of the company Imunološki zavod d.d., 2010-2014.

Table 2 A summary of assets and liabilities of the Institute, 2010-2014 (in million HRK)

	2010	2011	2012	2013	2014
Fixed assets	173.2	171.0	173.0	175.6	170.1
Tangible assets	173.2	171.0	173.0	175.6	170.1
Fixed financial assets	0.0	0.0	0.0	0.0	0.0
Current assets	81.9	66.4	66.0	42.0	32.6
Inventories	44.1	47.4	34.0	26.4	27.6
Short-term receivables	17.5	16.5	26.7	12.1	4.7
Current financial assets	0.0	0.8	3.8	0.0	0.0
Cash at bank and on hand	20.2	1.7	1.6	3.4	0.3

Total assets	255.0	237.3	239.0	217.6	202.7
Off-balance sheet bills	4.0	n/a	n/a	n/a	n/a
Capital reserves	142.1	142.2	119.7	98.2	77.1
Subscribed capital	85.6	85.6	85.6	85.6	85.6
Reserves from profit	1.5	0.0	0.0	0.0	0.0
Revaluation reserves	66.7	66.3	66.3	65.6	65.6
Retained profit/loss	0.9	-9.8	-18.9	-31.4	-53.1
Profit/loss of the business year	-12.6	0.0	-13.3	-21.7	-21.1
Provisions	1.0	1.0	1.0	0.0	0.0
Long-term liabilities	17.9	24.7	61.3	53.9	46.7
Short-term liabilities	94.0	69.4	57.0	65.5	78.9
Total liabilities	255.0	237.3	239.0	217.6	202.7
Off-balance sheet bills	4.0	4.0	4.5	4.6	4.6

Source: Financial statements of the company Imunološki zavod d.d., 2010-2014.

Table 3 Employees of the Institute, 2010-2014.

	2010	2011	2012	2013	2014
No. of Management Board members	2	1	2	2	3
No. of employees	331	317	271	192	167
Average net salary (in HRK)	4,869	5,001	5,167	5,517	5,267

Source: Financial statements of the company Imunološki zavod d.d., 2010-2014.

Table 4 The Institute's liabilities to banks and other financial institutions, 2010-2014. (in million HRK)

	2010	2011	2012	2013	2014
Short-term	16.6	7.7	1.9	9.5	13.7
Long-term	1.3	8.1	44.8	37.5	30.3
TOTAL	17.8	15.8	46.7	47.0	44.0

Source: Financial statements of the company Imunološki zavod d.d., 2010-2014.

Table 5 Financial indicators for the Institute, 2010-2014.

	2010	2011	2012	2013	2014
Debt-equity ratio	0.21	0.29	0.72	0.63	0.55
Total indebtedness	1.31	1.10	1.38	1.39	1.47
Current ratio	0.87	0.96	1.16	0.64	0.41
Quick ratio	0.40	0.27	0.56	0.24	0.06
Cash ratio	0.20	0.02	0.03	0.05	0.00
Total asset turnover ratio	0.36	0.39	0.27	0.21	0.09
Current asset turnover ratio	1.11	1.39	0.99	1.11	0.55
Inventory turnover ratio	2.05	1.95	1.92	1.77	0.65
Receivables turnover ratio	5.17	5.61	2.45	3.86	3.78
Gross profit margin	-0.06	0.06	-0.12	-0.26	-0.82
Net profit margin	-0.14	0.00	-0.20	-0.46	-1.18
Total assets profitability	-0.02	0.02	-0.03	-0.06	-0.07
Equity profitability	-0.07	0.06	-0.09	-0.14	-0.17
Average collection period	70	64	147	93	95
Average settlement period	357	223	326	337	1.050

Source: Financial statements of the company Imunološki zavod d.d., 2010-2014.

Table 6 Operating expenses of the Institute, 2010-2014 (in million HRK)

	2010	2011	2012	2013	2014
Operating expenses	97.7	87.6	74.0	60.5	34.9
Change in the value of inventories	-2.7	-4.3	3.3	-1.9	0.9
Material expenses	49.1	49.0	25.3	23.7	9.6
Staff expenses	32.6	31.4	27.7	20.8	17.3
Depreciation charges	3.2	3.1	3.0	3.0	2.8
Other expenses	7.8	7.6	14.1	5.6	3.6
Value adjustment	6.7	0.7	0.6	9.3	0.8
Provisions	1.0	0.0	0.0	0.1	0.0

Source: Financial statements of the company Imunološki zavod d.d., 2010-2014.