



BCG Transform Index: Belgium & the Netherlands

Financial study on sector performance

APRIL, 2023



Disclaimer



The basis for this study is a data set extracted from Capital IQ for companies listed on European stock exchanges with a minimum revenue of €500 million



Companies from the financial industry and Ukraine/Russia are excluded



Our data set includes 1,373 European companies, of which 107 are from Belgium or the Netherlands, that meet these selection criteria



The analysis covers data from 2018 through the last twelve months (LTM)



LTM refers to available data from Q4-2021 to Q3-2022



The ranking is based on a comparison with other industries within the same region



Please note that the statements made relate specifically to this data set

Sector performance and resilience in the face of past and prevailing crises

Most resilient sectors

- The **Automotive** sector demonstrates a remarkable performance across all dimensions, with the highest score in profitability despite rising input prices, supply chain disruptions, and declining car sales
- The **Chemicals** sector scores highly across all dimensions, benefitting from the industry's high degree of diversification that stems from the wide range of application fields of its products
- The **TMT** sector performs comparatively poorly in financial stability, but exhibits high scores in profitability and solvency, with significantly better performance compared with the European ranking

Most impacted sectors

- The **Energy** sector demonstrates relatively stable solvency, but grapples with issues regarding profitability, as margins have dropped by more than 50% since 2018, and financial instability due to rising interests
- The **Health Care** sector struggles primarily in profitability and solvency with significantly lower margins due to higher input prices and changing consumer needs
- The **Industrials** sector performs poorly in solvency and financial stability, most likely due to high input and energy prices for production as well as supply chain disruptions and a looming recession

Ranking compared with European average

- The **TMT** sector in Belgium and the Netherlands has demonstrated greater resilience in the face of industry challenges such as chip shortages and heightened competition from new digital entrants
- The **Health Care** sector in Belgium and the Netherlands has been more severely hit by rising input prices and changing consumer needs, such as the demand for digital engagement

BCG recommendation

In the context of persistent crises, companies cannot continue to remain in a reactive firefighting mode, but rather must focus on proactively seizing opportunities supported by an adaptable cost structure (that fits earnings), a strong financial position, and an adjusted go-to-market strategy. In a nutshell: Resilience is key to being successful

Take-aways



Operational view

Post-pandemic, revenue is on the rise across all sectors except for Health Care and Leisure & Tourism. However, EBITDA margins have not yet fully recovered in some sectors, with the margin in the Energy sector having halved compared with the 2018 baseline



Solvency

After a significant rise in LTM, the proportion of companies with negative free cashflow in LTM is 22%, which is slightly lower than the European average of 27%



Financial stability

Net debt has risen by over 10% in LTM, with just 37% of it being investment grade. This share is even worse than Europe's sobering 45% investment-grade debt but shows a strong improvement in historical perspective



Automotive, Chemicals and TMT sector proved to be the most resilient industries – quite a different picture compared to the European view

● — Points given for industry performance in three dimensions — ●

			Profitability	+	Solvency	+	Financial stability	=	SUM
1		Automotive Metals & Mining	10		9		9		28
2		Chemicals Chemicals	9		10		9		28
3		TMT Energy	8		9		4		21
4		Metals & Mining Automotive	6		2		10		18
5		Consumer Other	4		5		6		15

Industry position in the European ranking

Note: A ranking was assigned to each industry based on its performance in three dimensions. The detailed ranking methodology can be found in the appendix.
Source: Capital IQ, BCG analysis



Industrials is the most severely affected sector, with performance in Belgium and the Netherlands significantly worse than in the European ranking

● — Points given for industry performance in three dimensions — ●

			Profitability	+	Solvency	+	Financial stability	=	SUM
6		Leisure & Tourism Industrials	5		6		2		13
7		Others Health Care	3		4		5		12
8		Energy Consumer	2		7		3		12
9		Health Care TMT	1		1		9		11
10		Industrials Leisure & Tourism	7		3		1		11

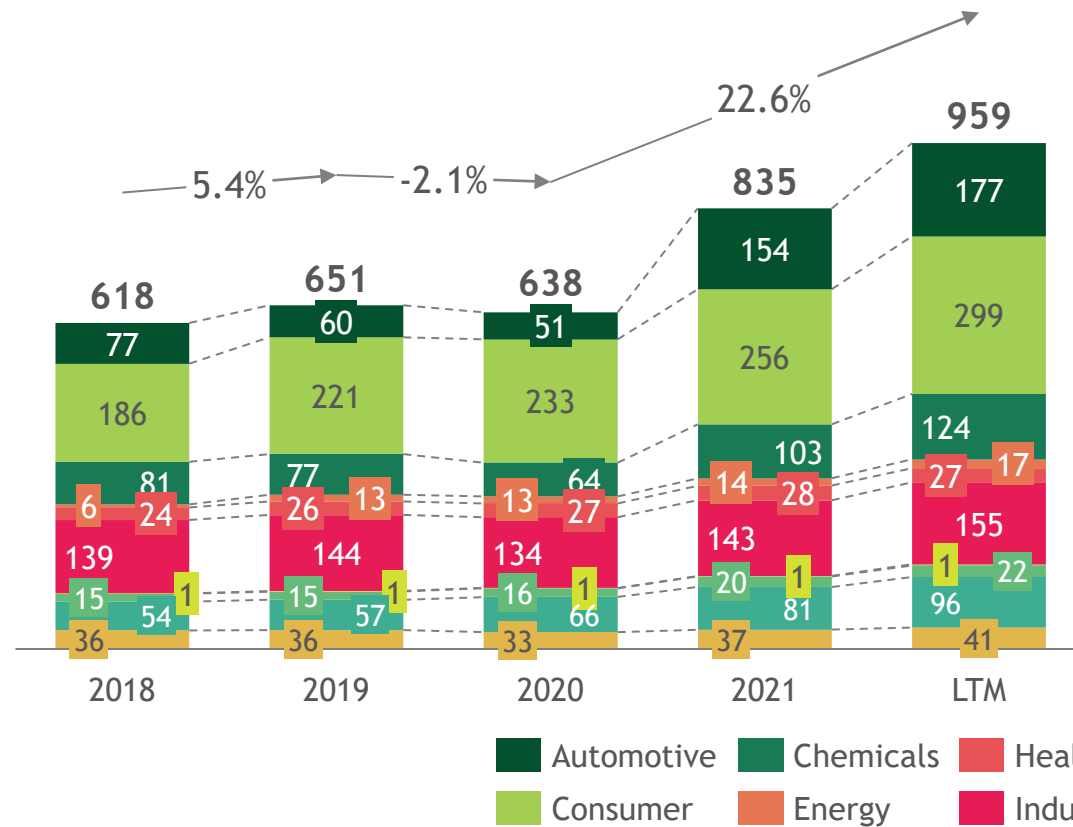
Industry position in the European ranking

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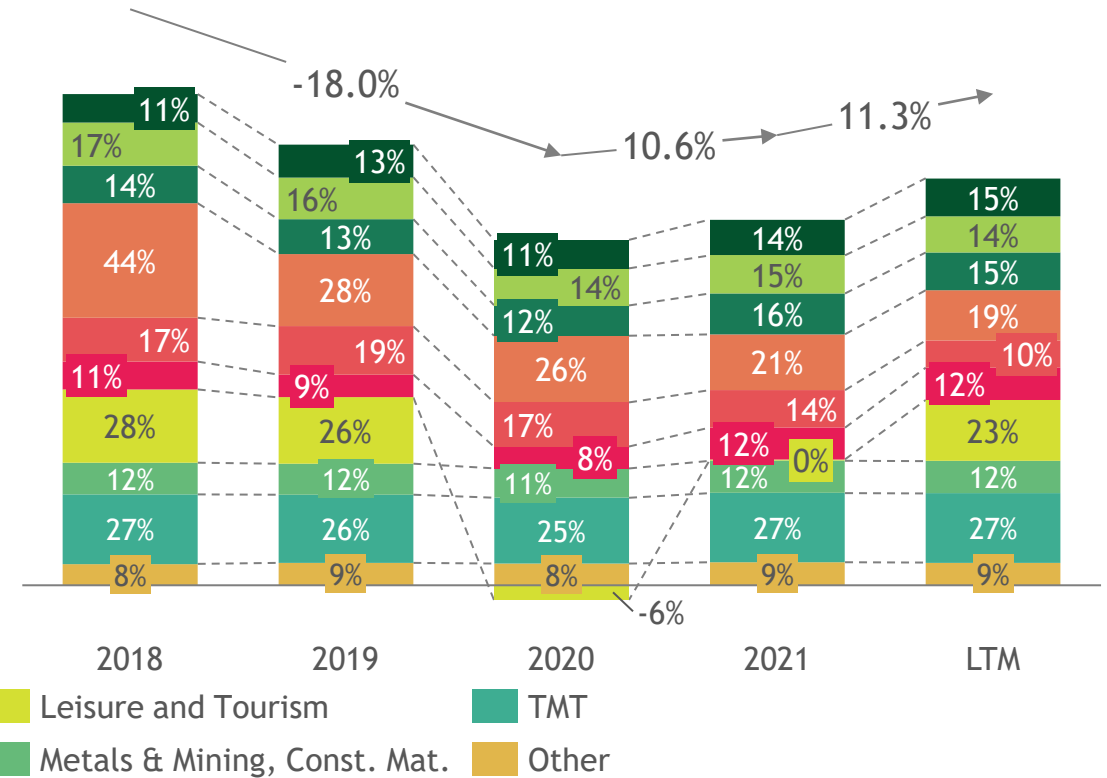


Operational view | Revenues exceed pre-pandemic levels – profitability for some sectors (esp. Energy, Health Care and L&T) below pre-pandemic average

Revenue in the BE & NL in bn EUR, 2018-LTM



EBITDA margin in BE & NL in %, 2018 -LTM

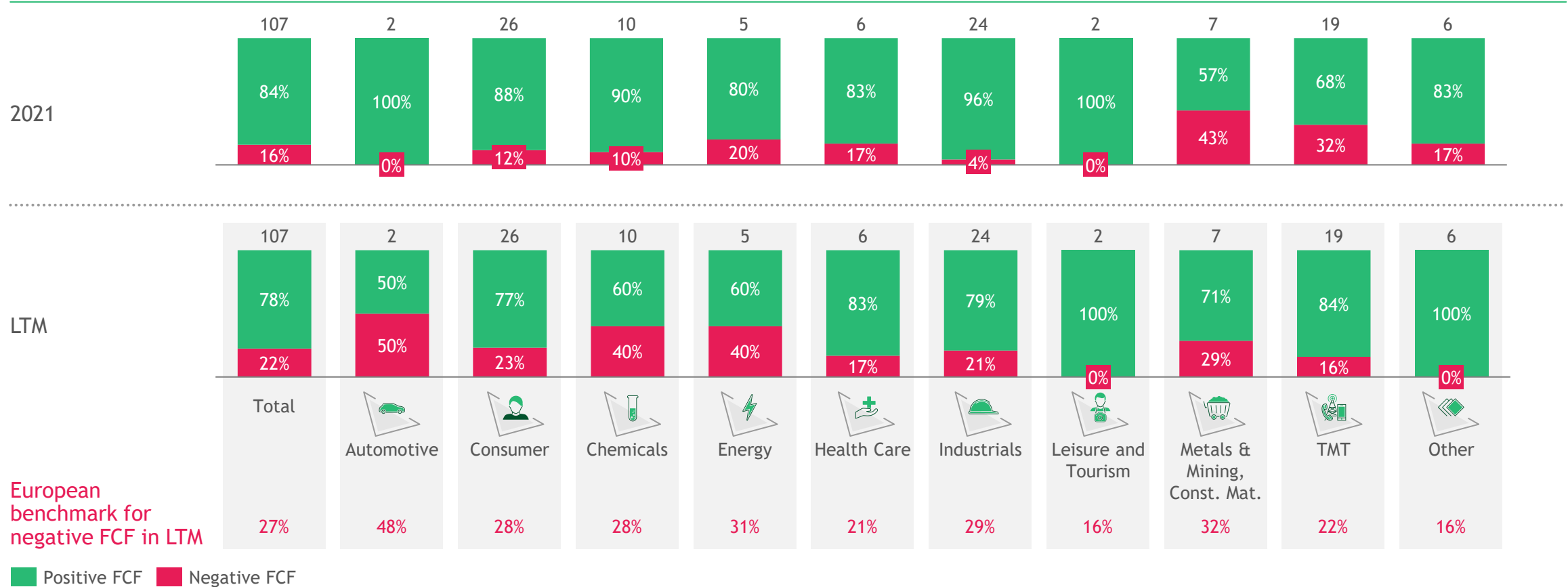


Note: LTM = LTM Q3-2022
Source: Capital IQ, BCG Analysis



Solvency | 22% of companies in Belgium and the Netherlands have negative FCF in LTM, which is slightly lower than the European average of 27%

Distribution of companies with negative/positive FCF in 2021 and LTM

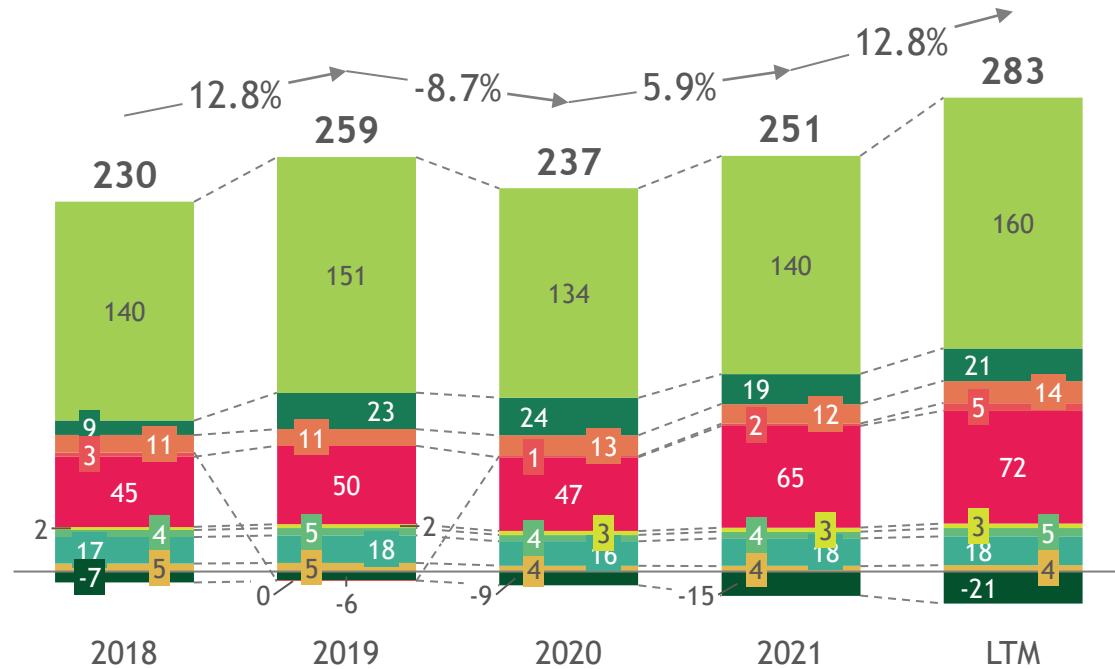


Note: The number of companies within each sector is lower than 5 in Automotive and Leisure and Tourism
 Source: Capital IQ, BCG Analysis

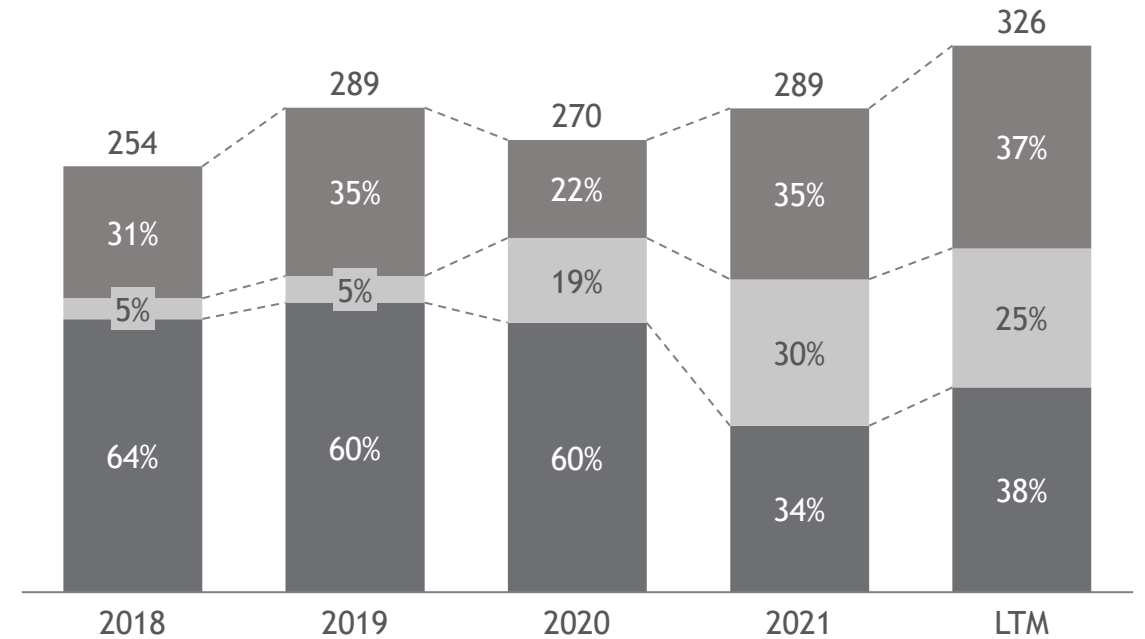


Financial stability | While net debt has risen significantly over the recent years, overall quality has improved strongly after 2020

Net debt in BE & NL in bn EUR, 2018-LTM



Net debt by rating¹ in BE & NL in % and bn EUR, 2018-LTM



Automotive
 Chemicals
 Health Care
 Leisure and Tourism
 TMT
 Investment Grade
 Mid-Grade
 Sub-Performing

Consumer
 Energy
 Industrials
 Metals & Mining, Const. Mat.
 Other

1. The ratings are based on the Net Debt/EBITDA leverage measure. Debt with a Net Debt/EBITDA ratio below 3.5 is considered investment grade, while debt with a ratio between 3.5 and 4.5 is classified as mid-grade. If the ratio exceeds 4.5, it is considered sub-performing. If EBITDA is negative, net debt is automatically classified as sub-performing.

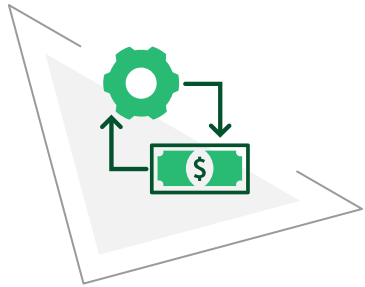
Source: Capital IQ, BCG Analysis



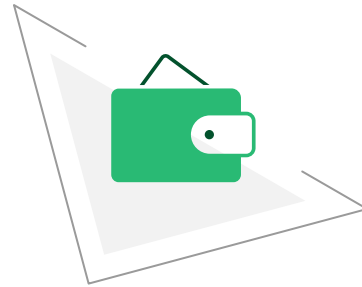
Appendix

Ranking methodology

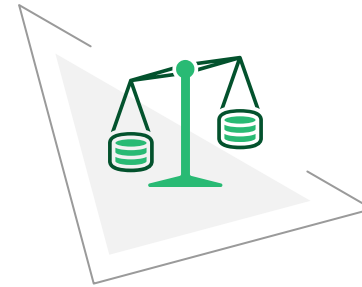
Profitability



Solvency



Financial stability



Total ranking



The profitability ranking is based on **EBITDA growth between 2019 and LTM**, with the industry having the lowest EBITDA growth being assigned the fewest points (1) and the industry with strongest EBITDA growth the most points (10)

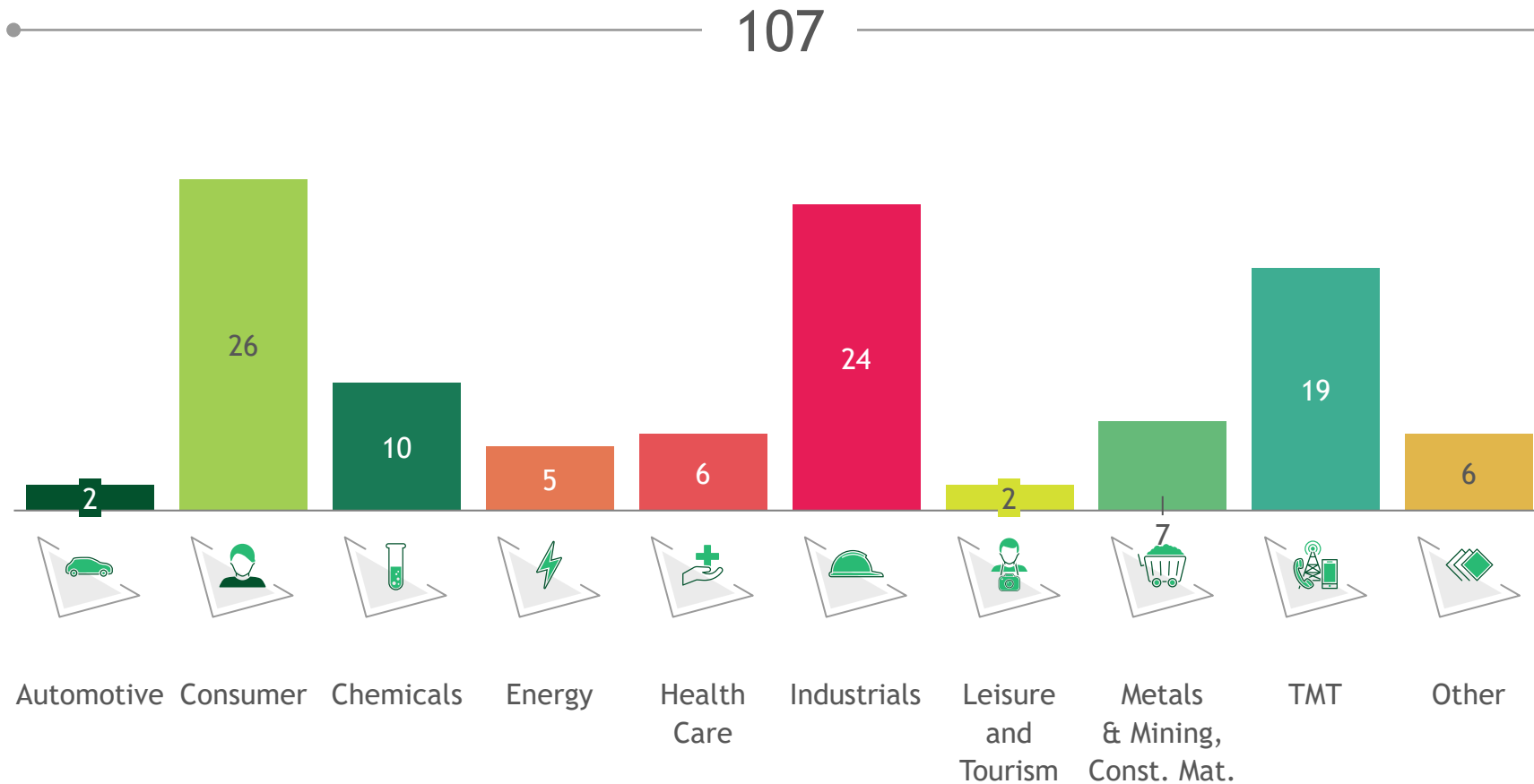
The solvency ranking is based on the **growth sector's overall cash account LTM, the percentage of companies with growth in cash LTM, and the interest coverage ratio**, with the worst overall performance assigned the fewest points (1 point) and the strongest the most points (10)

The financial stability ranking is based on the **LTM equity ratio and net debt rank, which is determined by the proportion of mid-grade and sub-performing debt**, with the worst overall performance assigned the fewest points and the strongest the most points

Once the points for each dimension have been determined, a **total ranking score is calculated by summing the points of each dimension**. The highest sum of points indicates the best performance, the lowest the poorest performance



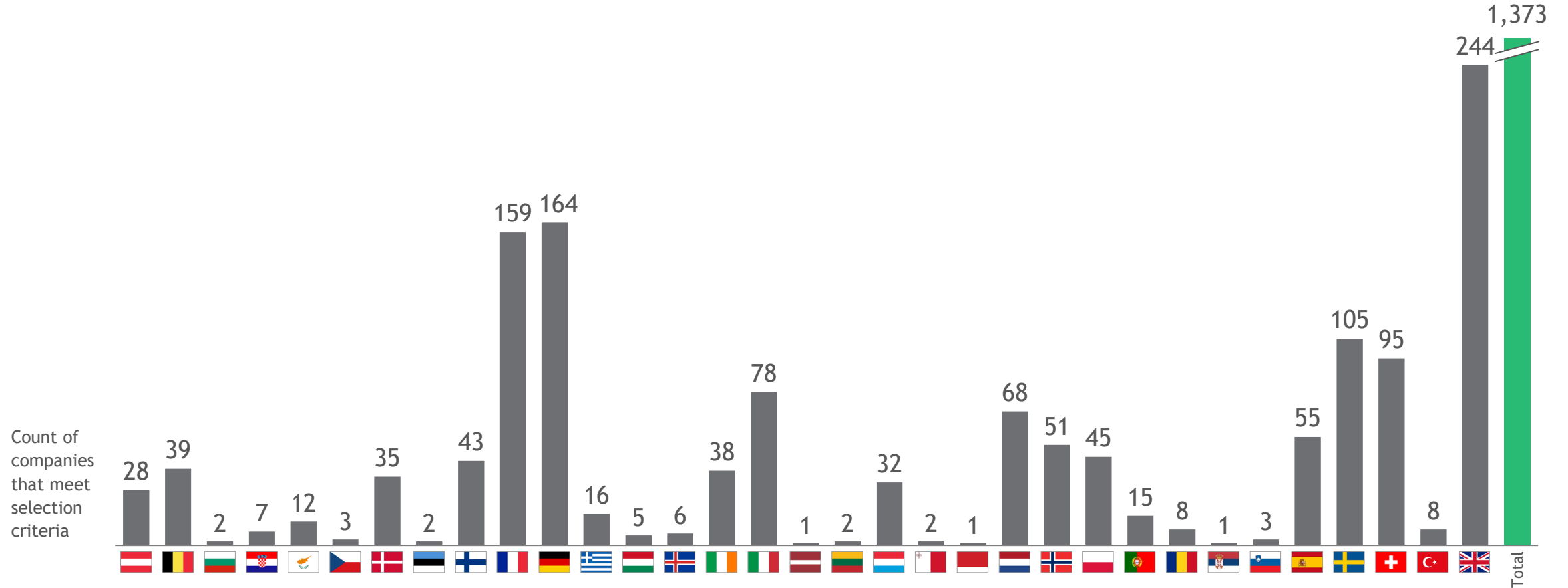
Number of companies within each industry for Belgium and the Netherlands in the underlying database



Selection criteria:

- Companies listed on European stock exchange with at least €500M revenues
- Financial industry and companies from Ukraine and Russia excluded

The data set consists of European companies that meet the selection criteria for this study





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