



BCG Transform Index: France

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 159 are French, 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 through Q3-2022



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



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 **Metals & Mining** sector scores highly across all dimensions, capitalizing on the surging demand after the pandemic (strong economic growth) and price increase from constrained supply in recent past
- The **Health Care** sector shows strong performance in profitability and financial stability, taking advantage of digitalization and the increase in demand for health care services
- Although the **Energy** sector exhibits rather poor financial stability, it shows high profitability and solvency, with producers benefitting from recent supply constraint and rising prices

Most impacted sectors

- Although the **Chemicals** sector scores highest in financial stability, it performs poorly in profitability and solvency, resulting in an overall ranking well below the European average
- The **Automotive** industry struggles across all dimensions, indicating that rising input prices and supply chain disruptions put pressure on the sector, particularly on suppliers
- The **Leisure and Tourism** sector remains significantly affected by the pandemic as well as by the current headwinds, esp. rising interests, with poor performance across all dimensions

Ranking compared with European average

- The French **Health Care** industry has been more resilient amidst the crisis due to the strong performance of French pharmaceutical companies, among other factors
- The French **Automotive** industry has been more impacted due to declining sales and increased restrictions, also related to the shift toward green energy

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, and EBITDA margins have returned to pre-Covid levels in most sectors. However, the momentum for profit growth is now waning—a trend that is also evident across many other European countries



Solvency

The proportion of French companies with negative free cashflow in the LTM is only 14%, which is markedly lower than the European average of 27% and might also be due to a “clearing effect from insolvencies”



Financial stability

Net debt has risen for the first time since 2019, with 59% of it being investment grade, a better share than Europe's 45% investment-grade debt

Sectors providing fundamental input for industrial production or health proved to be the most resilient industries

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

			Profitability	+	Solvency	+	Financial stability	=	SUM
1		Metals & Mining Metals & Mining	10		5		7		22
2		Health Care Chemicals	8		4		9		21
3		Other Energy	5		10		6		21
4		Energy Automotive	9		9		1		19
5		TMT Other	2		8		9		19

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

Leisure and Tourism remains the industry that has been most severely affected, in line with the European ranking, while Automotive performs notably worse

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

			Profitability	+	Solvency	+	Financial stability	=	SUM
6		Consumer Industrials	7		6		5		18
7		Industrials Health Care	6		8		4		18
8		Chemicals Consumer	4		3		10		17
9		Automotive TMT	3		2		2		7
10		Leisure & Tourism Leisure & Tourism	1		1		3		5

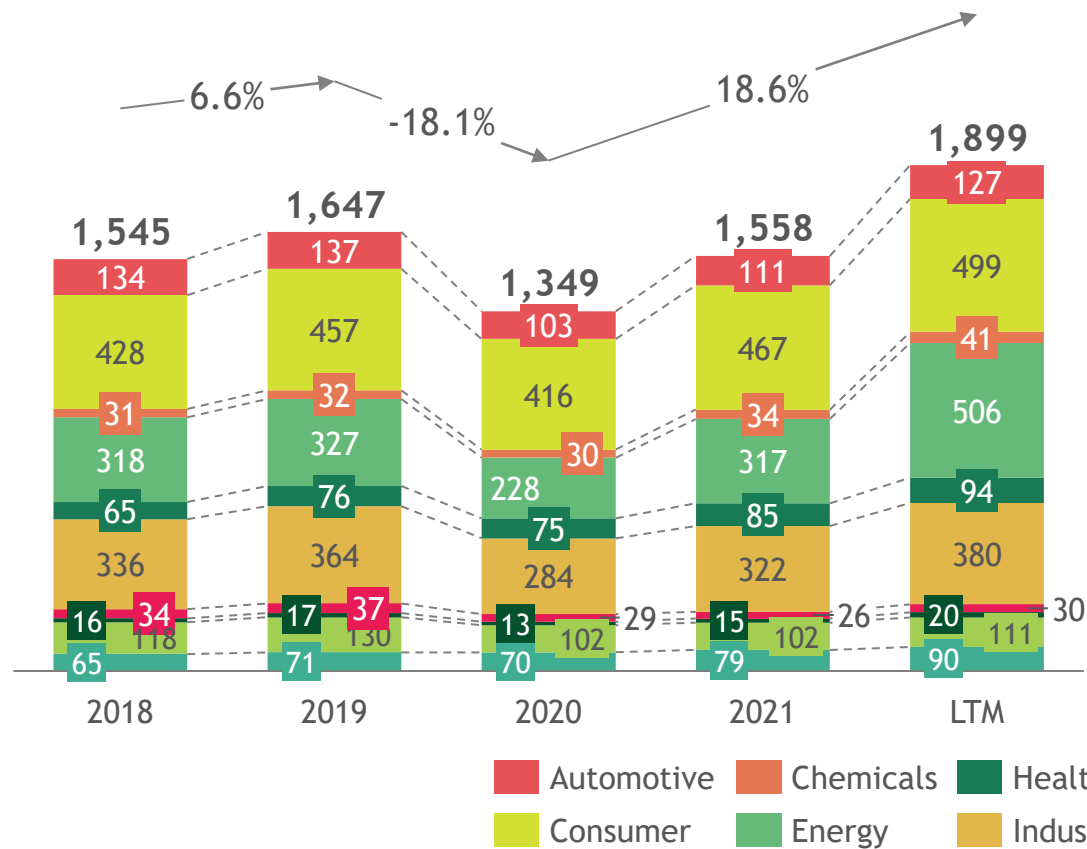
Industry position in the European ranking

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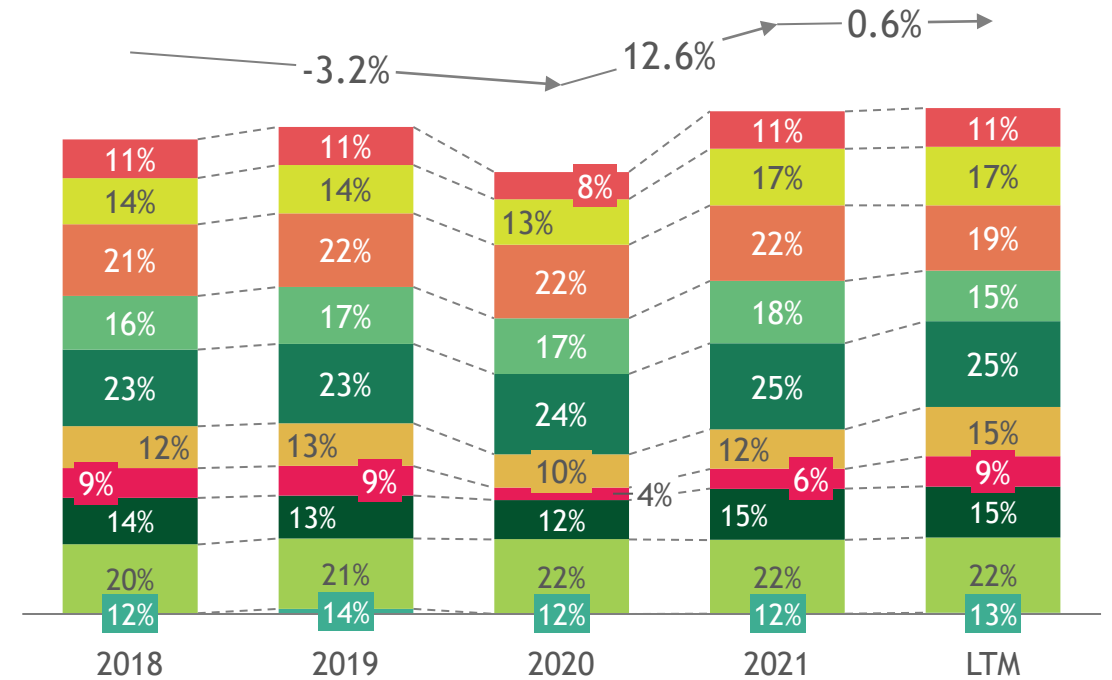


Operational view | After being strongly impacted by the pandemic, revenues are rising across all sectors with EBITDA margins mostly fully recovered

Revenue in France in bn EUR, 2018-LTM



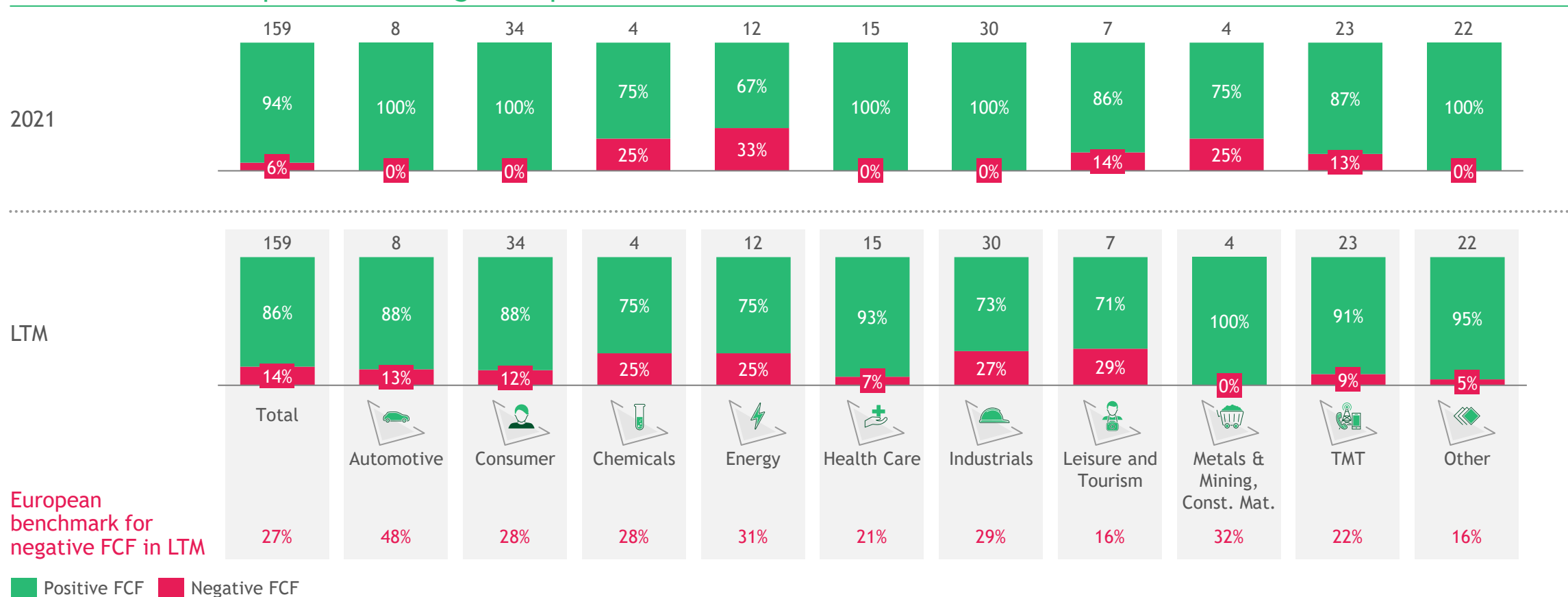
EBITDA margin in France in %, 2018-LTM





Solvency | Only 14% of French companies have negative FCF in LTM, which is significantly lower than the European average of 27%

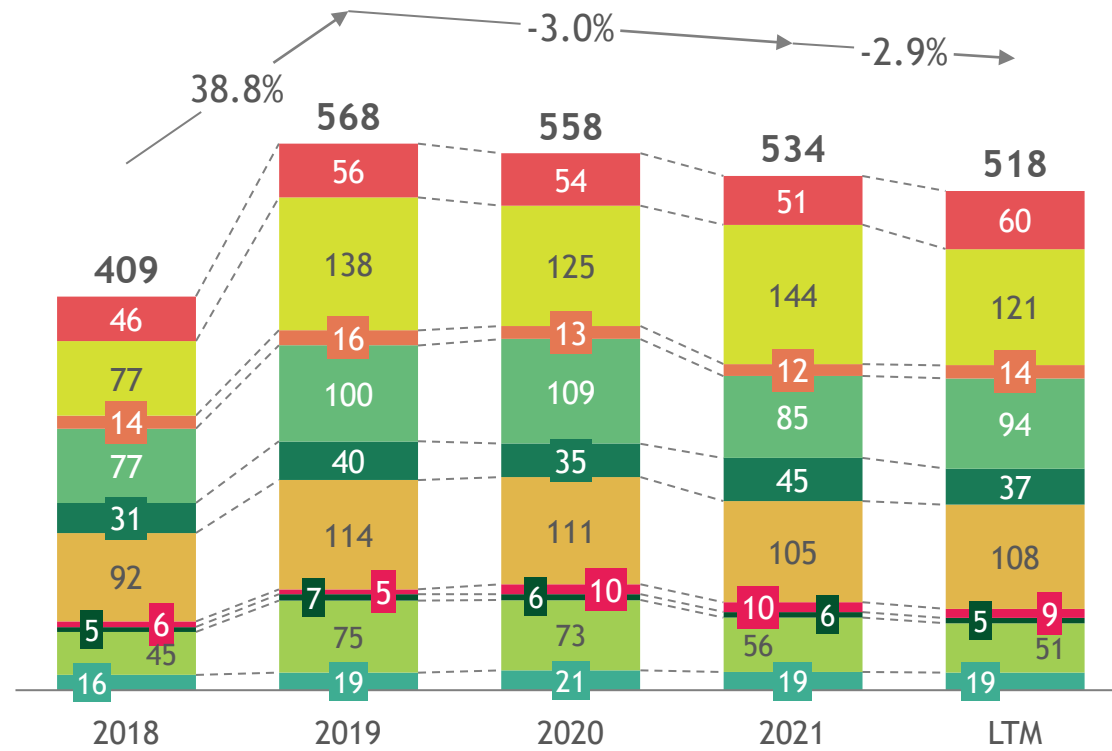
Distribution of companies with negative/positive FCF in 2021 and LTM in %



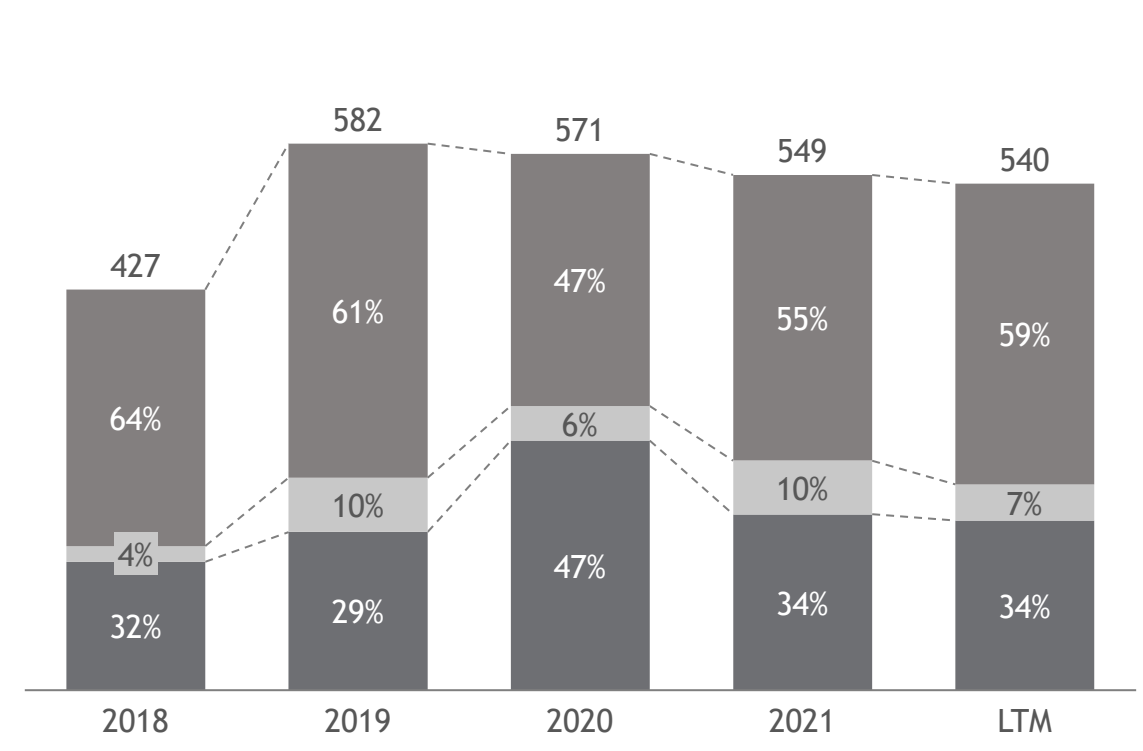


Financial stability | Net debt has been decreasing gradually since 2019 with debt quality improving significantly in LTM

Net debt in France in bn EUR, 2018-LTM



Net debt by rating¹ in France 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.

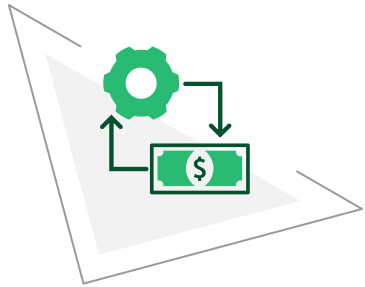
Source: Capital IQ, BCG Analysis



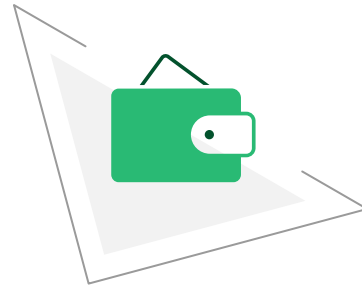
Appendix

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)

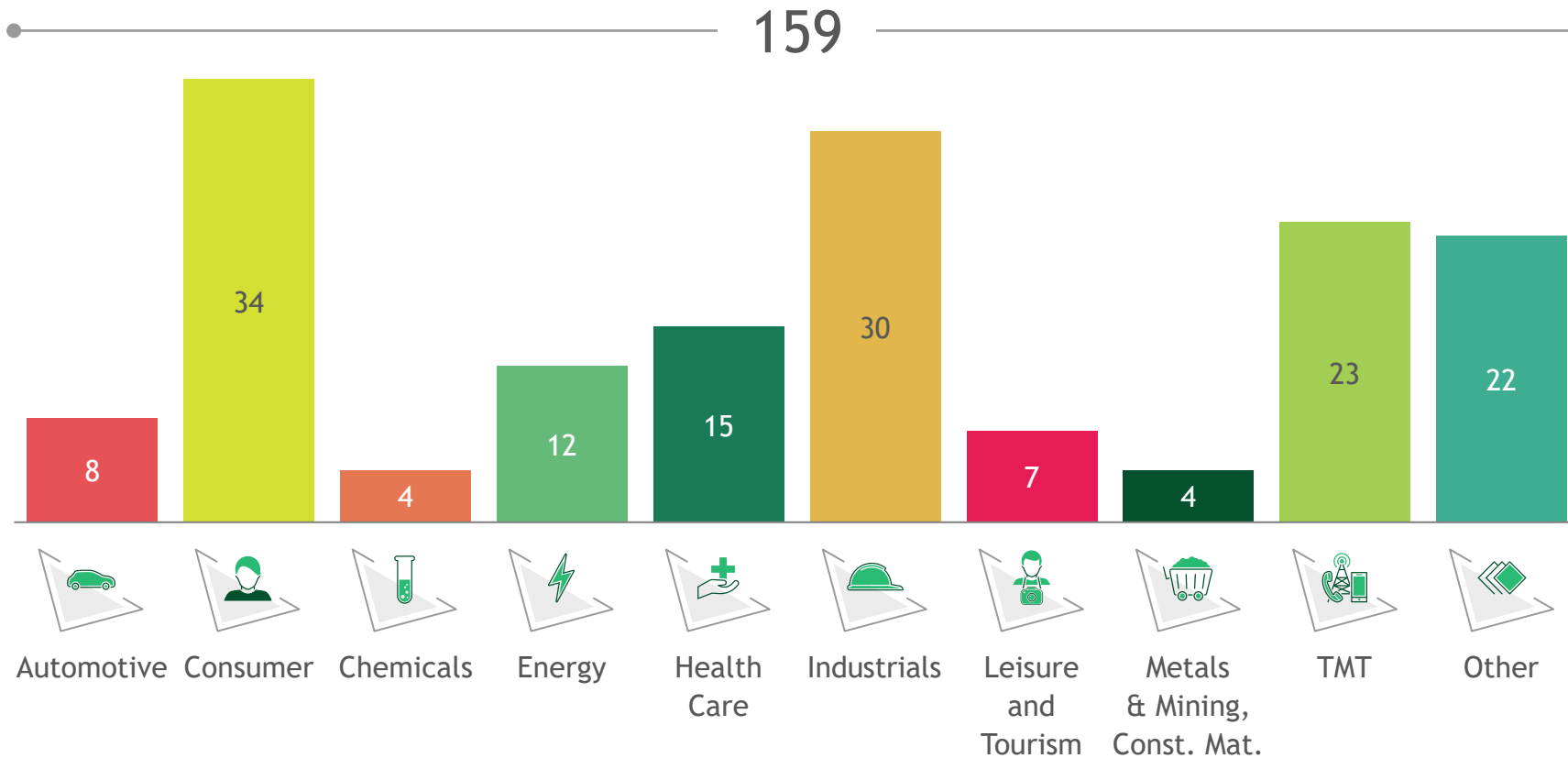
The solvency ranking is based on the **growth sector's overall cash account LTM, the percentage of companies with growth in cash LTM, and the interest coverage ratio**, with the worst overall performance assigned the fewest points (1 point) and the strongest the most points (10)

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



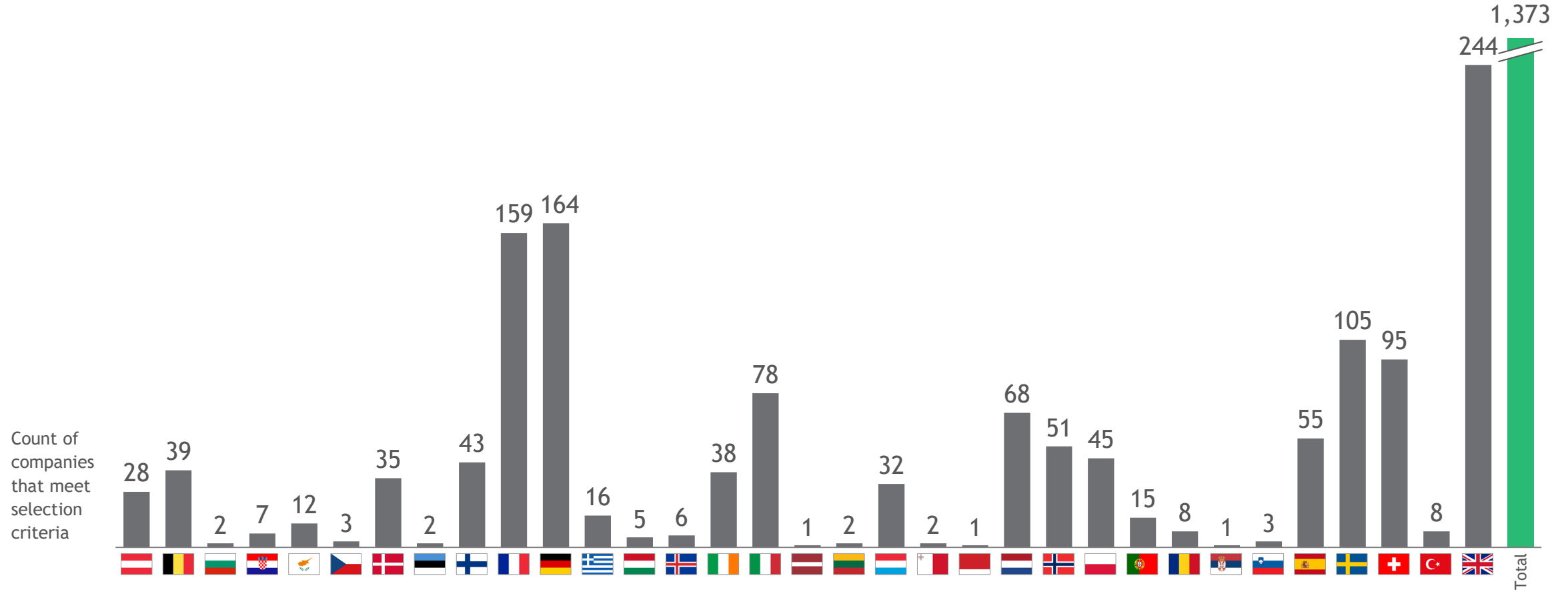
Number of French companies within each industry in the underlying database



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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