BCG Transform Index: Germany & Austria

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 192 are from Germany or Austria, 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

Take-aways

Most resilient sectors

- The Health Care sector exhibits high scores in profitability and solvency, taking advantage of digitalization and the increase in demand for health care services since the pandemic
- The Metals & Mining sector scores highly in profitability and financial stability, capitalizing on the surging demand after the pandemic and price increase from constrained supply in recent past
- The Chemicals sector scores above average in all dimensions, benefitting from the industry's high degree of diversification (wide range of application fields of its products) and broad participation in past economic uplift

Most impacted sectors

- The Consumer sector grapples particularly with issues concerning profitability, facing challenges from strong competition and opportunistic consumer spend behaviour
- The TMT sector sees challenges along all major KPIs and might see further impacts from upcoming economic challenges
- The pandemic and current challenges continue to significantly impact the Leisure and Tourism industry, which struggles across all dimensions, most notably in profitability with negative EBITDA margins since 2020

Ranking compared with European average

- The German and Austrian Health Care sector has seen a strong development since the pandemic compared to the European view
- Other sectors in line with ranking as per European view

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

Operational view

Post-pandemic, revenue is on the rise across all sectors and has surpassed pre-Covid levels. However, EBITDA margins have not yet returned to pre-Covid levels in selected industries, notably the Leisure and Tourism industry that still exhibits a negative EBITDA margin in LTM

Solvency

The proportion of companies with negative free cashflow has risen steeply in the LTM, now amounting to 38%. This is markedly above the European average of 27%

Financial stability

Net debt has risen significantly in LTM for the first time since 2019, with just 25% of it being rated investment grade. This performance is notably worse than Europe's already sobering 45% investment-grade debt

Source: BCG Analysis, Germany Trade & Invest

Sectors that provide fundamental input for industrial production proved to be the most successful amidst the past crises — Health Care in G&A outstanding

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

		Profitability	+	Solvency	+	Financial stability	=	SUM
1	**Health Care** / Metals & Mining	9		9		6		24
2	**Metals & Mining** / Chemicals	7		4		10		21
3	**Chemicals** / Energy	6		6		8		20
4	**Energy** / Automotive	10		8		1		19
5	**Automotive** / Other	5		10		4		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; A total score of 19 points is exhibited by both Energy and Automotive. However, since Energy performs notably better in profitability, it is ranked higher; Source: Capital IQ, BCG analysis

3

Leisure and Tourism remains the industry that has been most severely affected

Points given for industry performance in three dimensions

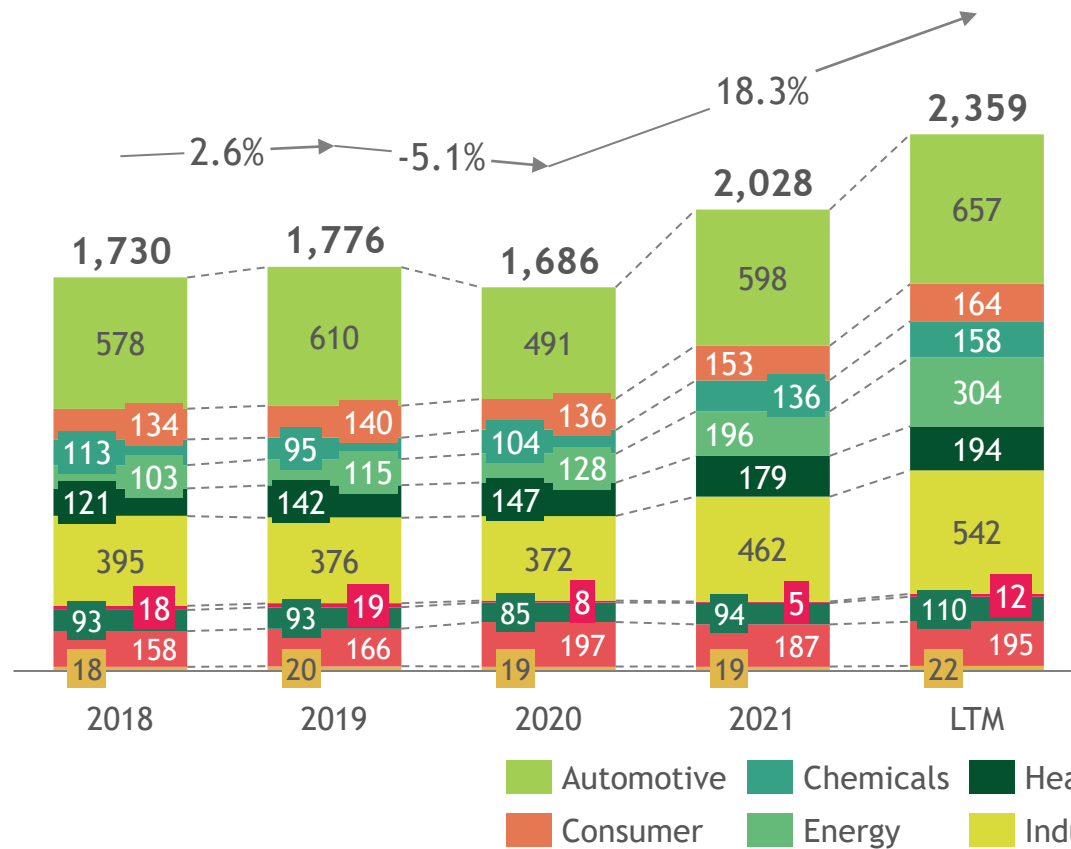|		Profitability	+	Solvency	+	Financial stability	=	SUM
6	**Industrials** Industrials	8		7		3		18
7	**Other** Health Care	4		2		9		15
8	**Consumer** Consumer	2		5		7		14
9	**TMT** TMT	3		3		5		11
10	**Leisure & Tourism** Leisure & Tourism	1		1		3		5

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

4

Operational view | Revenues exceed pre-pandemic levels significantly with EBITDA margins mostly recovered

Revenue in G&A in bn EUR, 2018–LTM

2.6% → -5.1% → 18.3%

	2018	2019	2020	2021	LTM
Total	1,730	1,776	1,686	2,028	2,359
Automotive	578	610	491	598	657
Consumer	134	140	136	153	164
Chemicals	113	95	104	136	158
Energy	103	115	128	196	304
Health Care	121	142	147	179	194
Industrials	395	376	372	462	542
Metals & Mining	93	93	85	94	110
Leisure and Tourism	18	19	8	5	12
TMT	158	166	197	187	195
Other	18	20	19	19	22

EBITDA margin in G&A in %, 2018–LTM

-11.7% → 10.7% → 17.6%

	2018	2019	2020	2021	LTM
Total	127	123	99	109	128
Automotive	12%	11%	11%	15%	14%
Consumer	9%	9%	8%	8%	7%
Chemicals	16%	14%	13%	14%	13%
Energy	14%	12%	11%	15%	11%
Health Care	18%	21%	37%	30%	27%
Industrials	10%	10%	8%	12%	13%
Metals & Mining	9%	7%	3%	8%	10%
Leisure and Tourism	6%	4%	-27%	-26%	-1%
TMT	25%	26%	27%	25%	24%
Other	8%	8%	9%	9%	10%

Legend: Automotive, Chemicals, Health Care, Leisure and Tourism, TMT, Consumer, Energy, Industrials, Metals & Mining, Const. Mat., Other

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

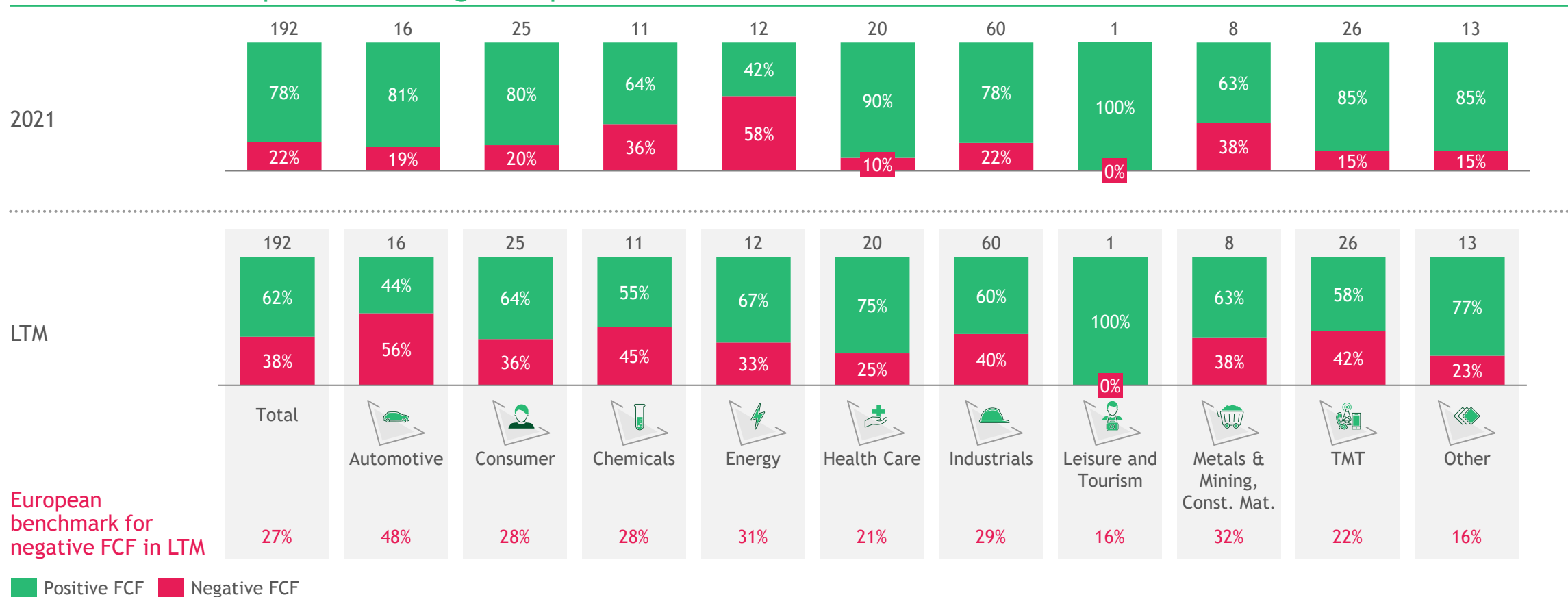# Solvency | After a steep rise in 2021, 38% of companies in G&A have negative FCF in LTM, which is significantly higher than the European average of 27%

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

	Total	Automotive	Consumer	Chemicals	Energy	Health Care	Industrials	Leisure and Tourism	Metals & Mining, Const. Mat.	TMT	Other
(n)	192	16	25	11	12	20	60	1	8	26	13
2021 Positive	78%	81%	80%	64%	42%	90%	78%	100%	63%	85%	85%
2021 Negative	22%	19%	20%	36%	58%	10%	22%	0%	38%	15%	15%
(n)	192	16	25	11	12	20	60	1	8	26	13
LTM Positive	62%	44%	64%	55%	67%	75%	60%	100%	63%	58%	77%
LTM Negative	38%	56%	36%	45%	33%	25%	40%	0%	38%	42%	23%
European benchmark for negative FCF in LTM	27%	48%	28%	28%	31%	21%	29%	16%	32%	22%	16%

Legend: ■ Positive FCF   ■ Negative FCF
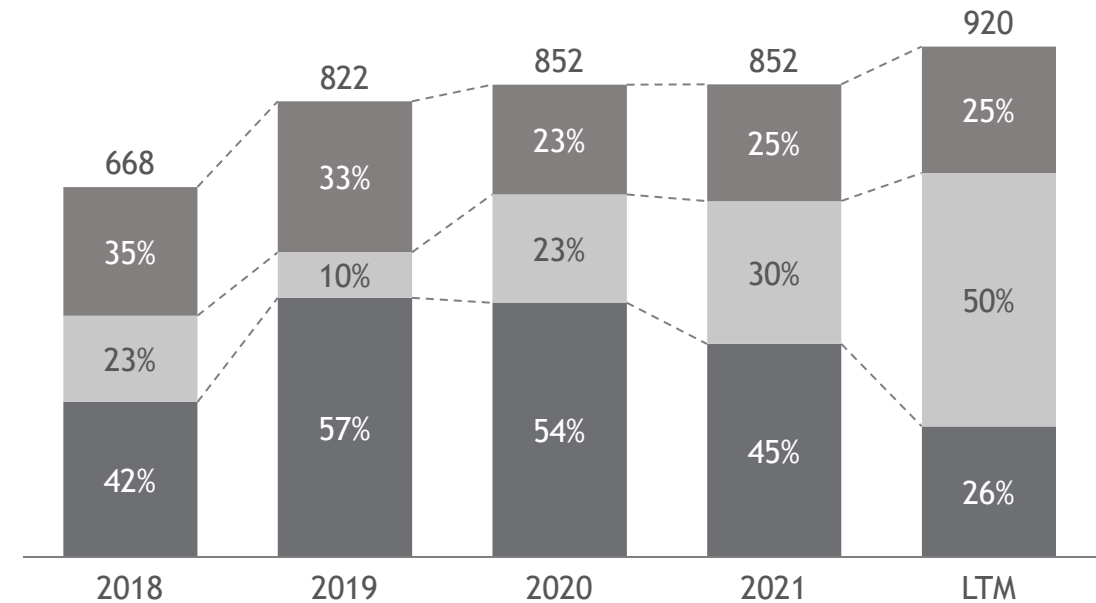
Source: Capital IQ, BCG Analysis

Financial stability | Net debt has increased further in LTM with a notable deterioration of the quality of net debt

Net debt in G&A in billion EUR, 2018-LTM
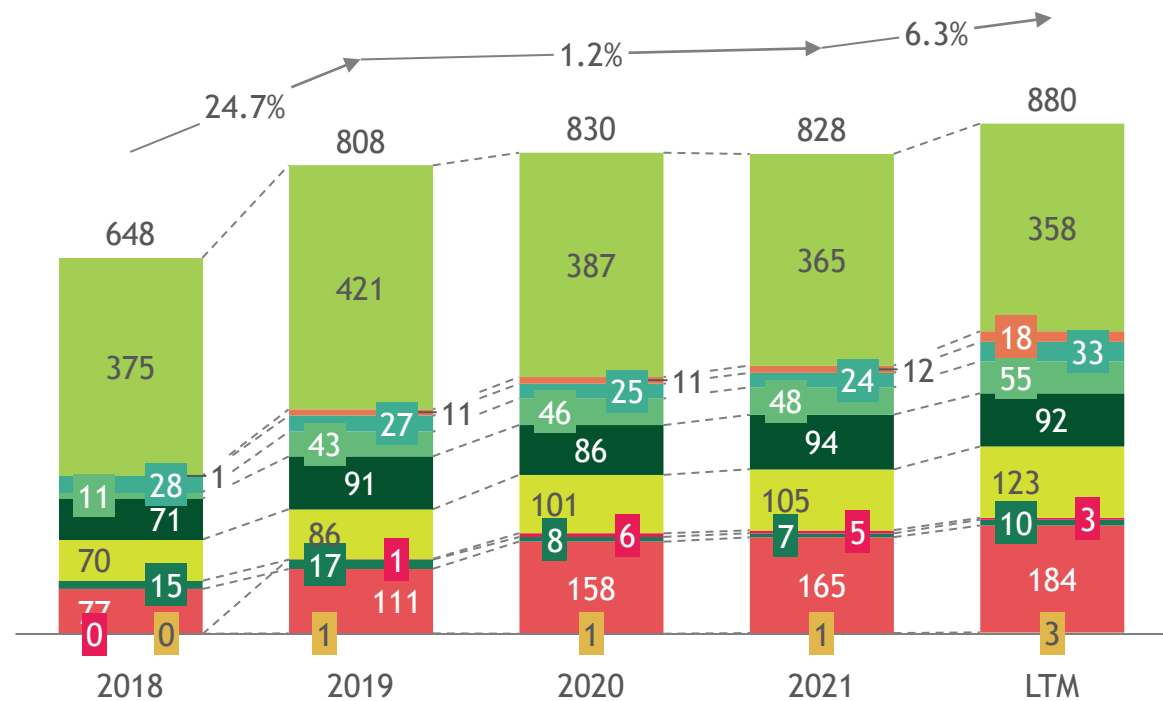
Net debt by rating[1] in G&A in % and bn EUR, 2018-LTM

Legend (left chart):
- Automotive
- Chemicals
- Health Care
- Leisure and Tourism
- TMT
- Consumer
- Energy
- Industrials
- Metals & Mining, Const. Mat.
- Other

Legend (right chart):
- Investment Grade
- Mid-Grade
- Sub-Performing

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 debt. If EBITDA is negative, net debt is automatically classified as sub-performing.
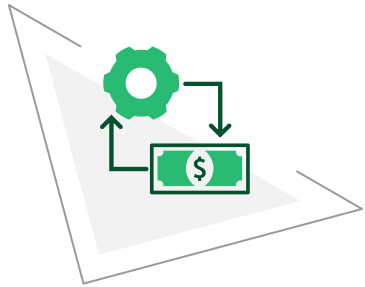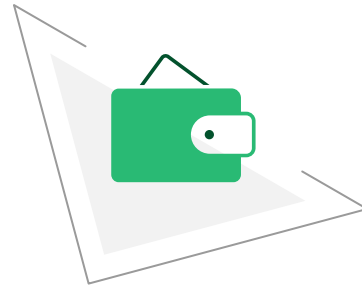Source: Capital IQ, BCG Analysis

Appendix

Ranking methodology

Profitability

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)
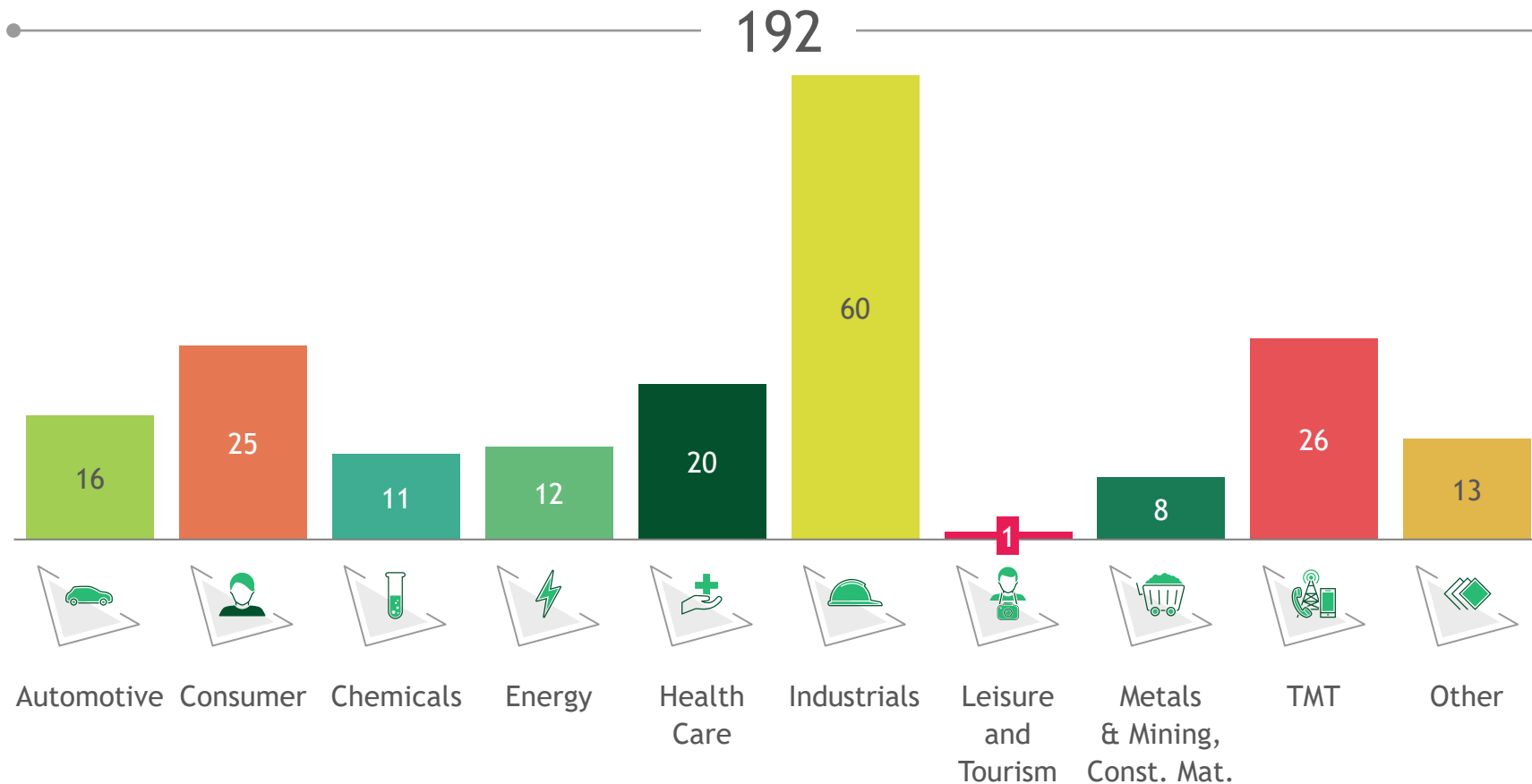
Solvency

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)

Financial stability

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

Total ranking

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
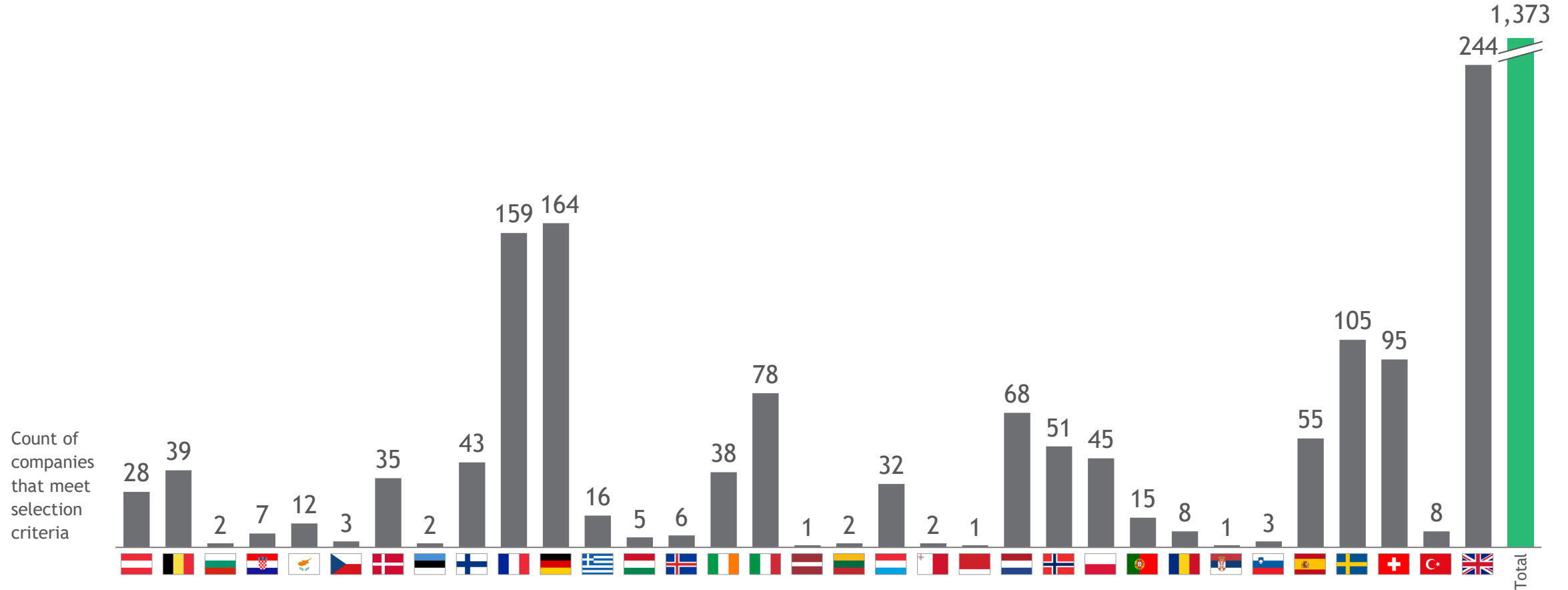
Number of German and Austrian companies within each industry in the underlying database

192

Automotive	Consumer	Chemicals	Energy	Health Care	Industrials	Leisure and Tourism	Metals & Mining, Const. Mat.	TMT	Other
16	25	11	12	20	60	1	8	26	13

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

Count of companies that meet selection criteria

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 28 | 39 | 2 | 7 | 12 | 3 | 35 | 2 | 43 | 159 | 164 | 16 | 5 | 6 | 38 | 78 | 1 | 2 | 32 | 2 | 1 | 68 | 51 | 45 | 15 | 8 | 1 | 3 | 55 | 105 | 95 | 8 | 244 | 1,373 |

Total

BCG BOSTON CONSULTING GROUP

bcg.com