BOSTON CONSULTING GROUP

BCG Transform Index: Italy

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 78 are Italian, 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 Chemicals sector in Italy which ranks amongst the top chemical exporters worldwide has taken part in global economic uplift in recent years and thus scores high across all financial dimensions
- The Metals & Mining sector scores highly across all dimensions, capitalizing on the surging demand for metals and minerals and price increase from constrained supplies in the recent past
- Health Care sector shows a strong performance across all dimensions, taking advantage of digitalization and the increase in demand for health care services since the pandemic

Most impacted sectors

- The Industrials sector scores poorly in profitability and financial stability, with significantly lower EBITDA margins compared with 2019. This development is very similar to the one shown by the Energy sector
- The Energy sector struggles with solvency and financial stability and could not recover based on recent increases in energy prices
- The TMT sector grapples particularly with issues concerning solvency, with 33% of its companies having negative FCF in LTM. In addition, its EBITDA margin has not yet recovered to pre-pandemic levels

Ranking compared with European average

- The Italian Health Care sector has been more resilient amidst the crisis due to the strong brand names of Italian pharmaceutical companies allowing for a better performance compared with the European average
- The Italian Industrials industry has been severely hit by increasing input prices, supply chain disruptions, and worsening industrial sentiment in the face of a looming recession. Energy also performs below 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

Source: BCG Analysis

Take-aways

Operational view

Revenues have surpassed pre-pandemic levels and are currently on the rise, particularly in the Energy sector. However, EBITDA margins have not yet returned to pre-Covid levels across many industries and have declined in LTM. This trend is also evident in other European countries

Solvency

After a significant rise in LTM, the proportion of Italian companies with negative free cashflow is 26%, which is completely in line with the European average of 27%

Financial stability

Contrary to developments in other European countries, net debt has decreased in LTM with the percentage of investment grade debt being only 15%, a significantly lower share than the assumed 40% in 2018. The quality of net debt is considerably worse than the European average of 45% investment-grade debt

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

Points given for industry performance in three dimensions

Rank	Industry	European ranking	Profitability	Solvency	Financial stability	SUM
1	Chemicals	Metals & Mining	10	8	8	26
2	Metals & Mining	Chemicals	8	9	9	26
3	Health Care	Energy	9	5	7	21
4	Consumer	Automotive	7	8	6	21
5	Other	Other	6	5	4	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

TMT is the industry that has been most severely impacted, with performance in Italy worse than in the European ranking

Points given for industry performance in three dimensions

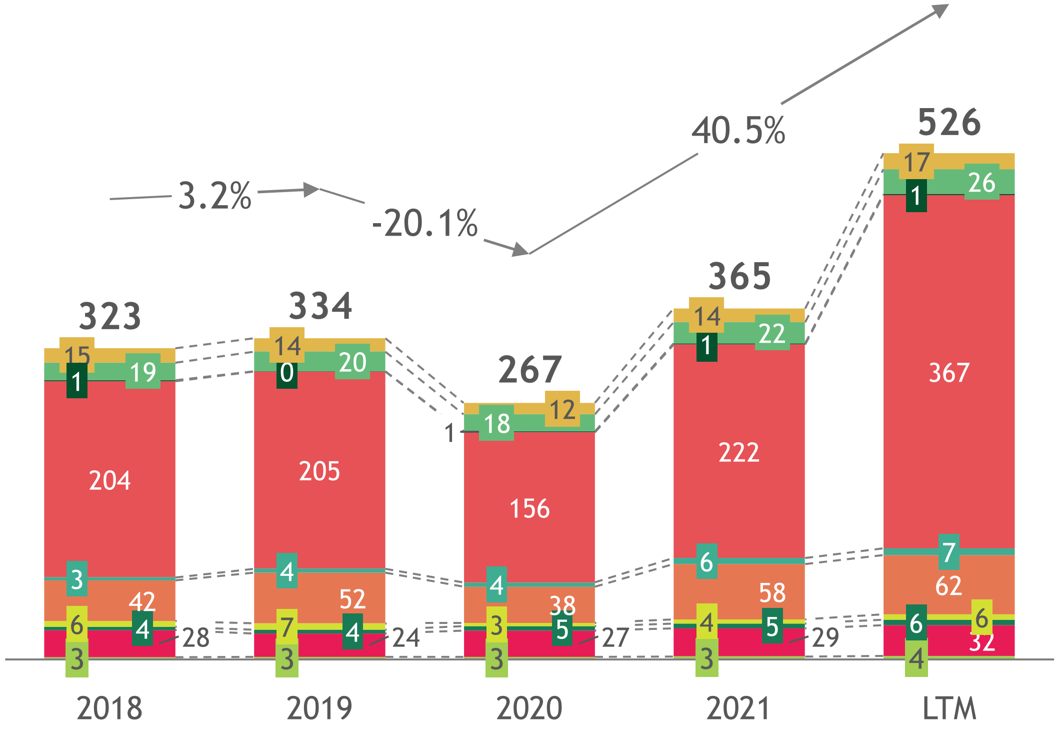
Rank	Industry (Italy)	Industry position in the European ranking	Profitability	+	Solvency	+	Financial stability	=	SUM
6	Leisure & Tourism	Industrials	1		10		1		12
7	Automotive	Health Care	4		2		5		11
8	Industrials	Consumer	2		6		2		10
9	Energy	TMT	5		3		1		9
10	TMT	Leisure & Tourism	3		1		3		7

Industry position in the European ranking

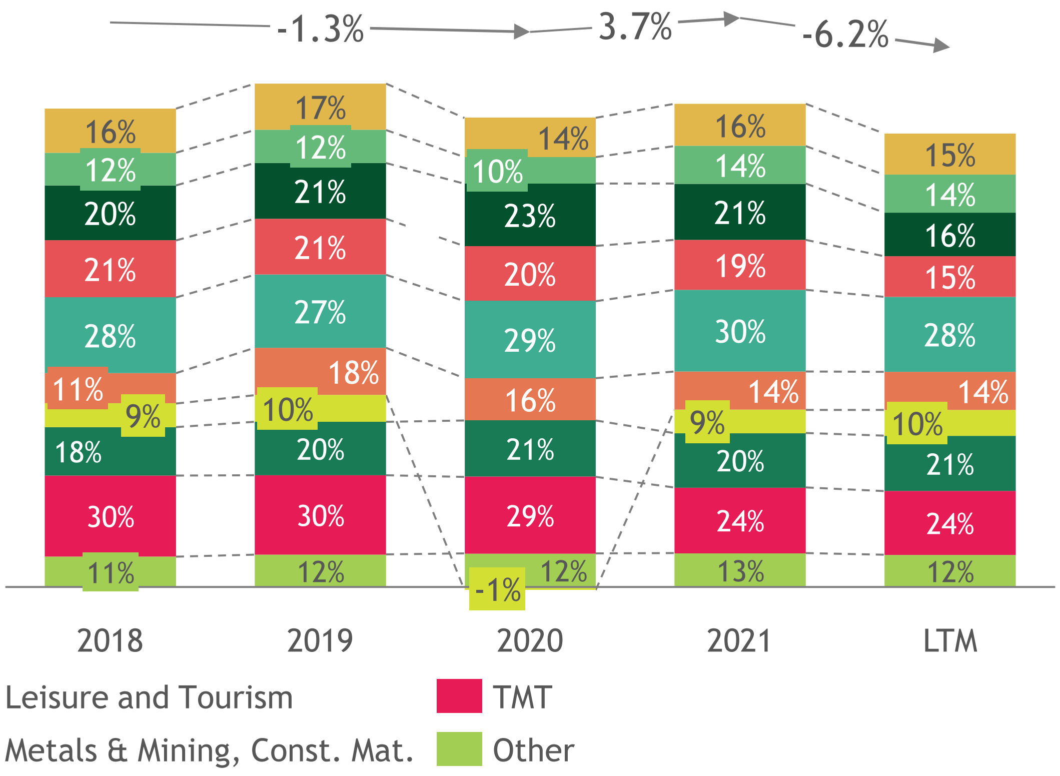
Note: A ranking was assigned to each industry based on its performance in three dimensions. The detailed ranking methodology can be found in the appendix.
Source: Capital IQ, BCG analysis

Operational view | While revenues have surpassed pre-pandemic levels, EBITDA margins decreased in the face of recent challenges

Revenue in Italy in bn EUR, 2018-LTM



EBITDA margin in Italy in %, 2018-LTM

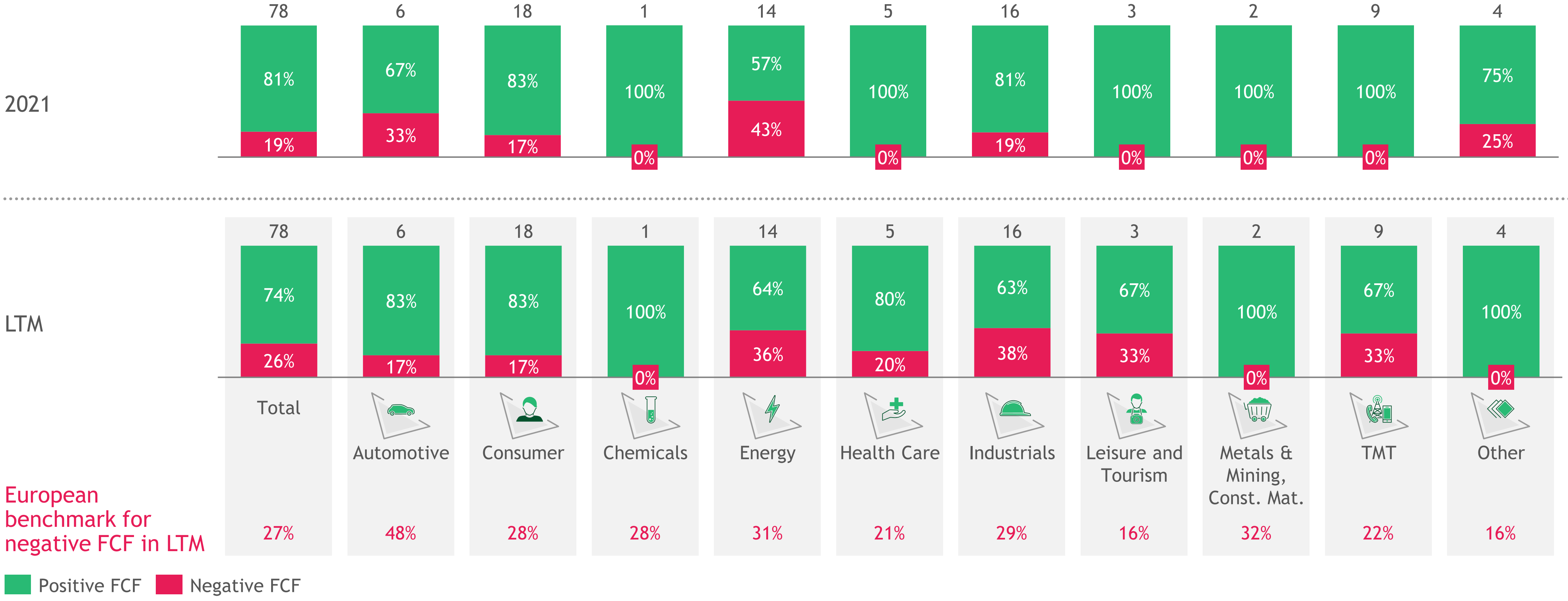


Note: LTM = LTM Q3-2022
Source: Capital IQ, BCG Analysis

Solvency | 26% of Italian companies have negative FCF in LTM, which is fully in line with the European average of 27%

Our data base contains only one company within Chemicals

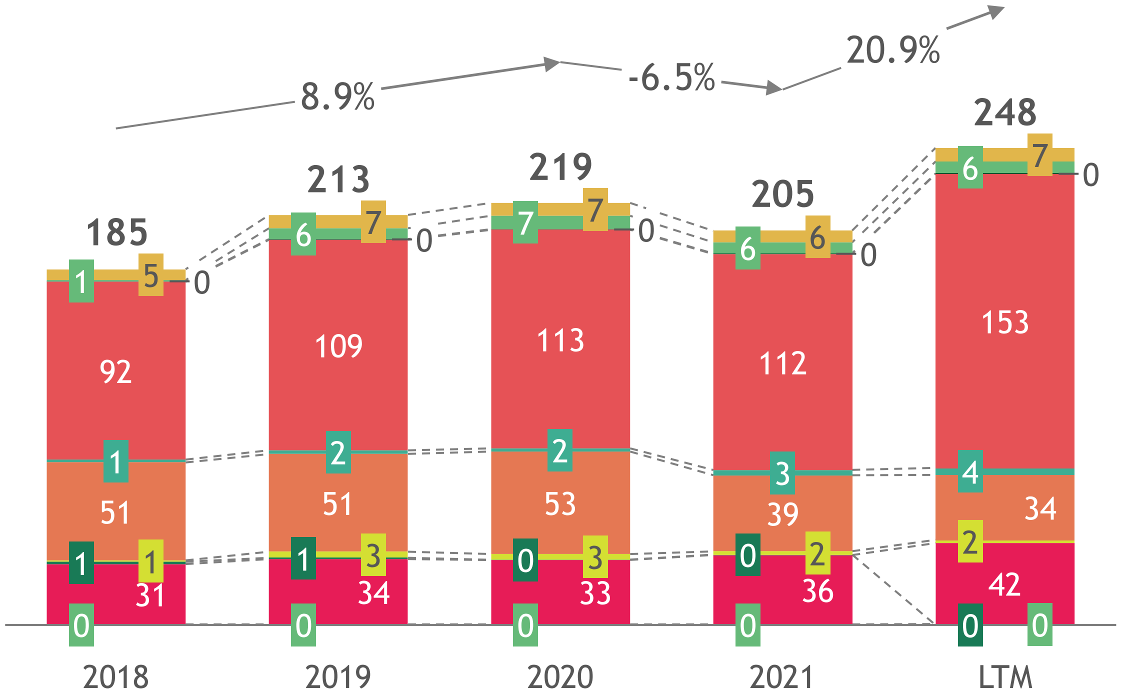
Distribution of companies with negative/positive FCF in 2021 and LTM



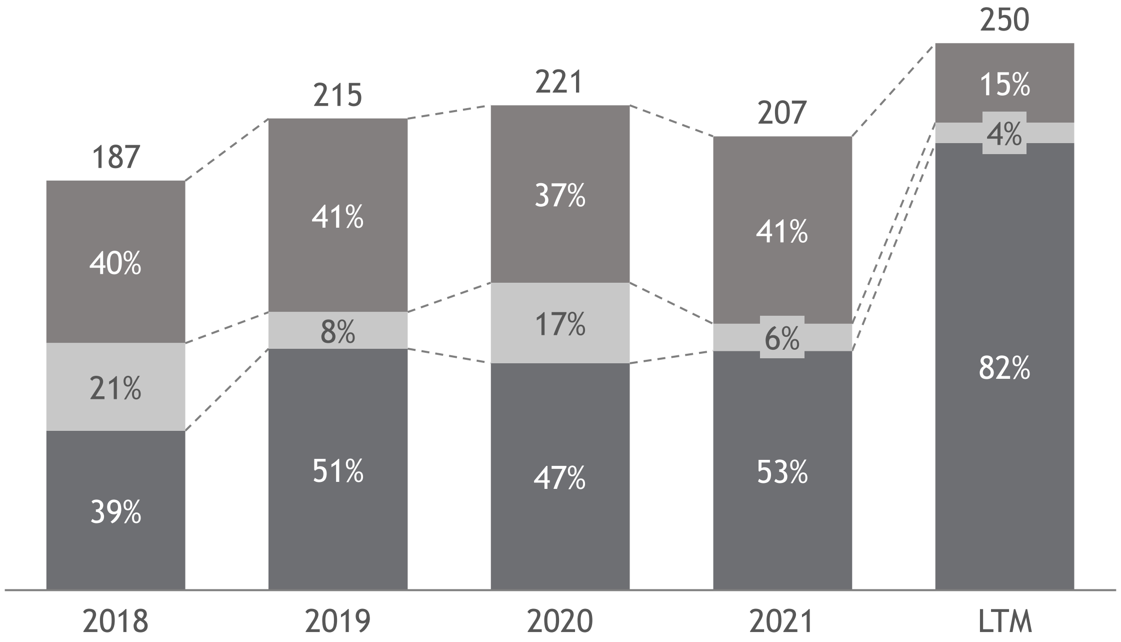
Note: The number of companies within each sector is lower than 5 in Chemicals, Automotive, Leisure and Tourism, Metals & Mining, and Other
Source: Capital IQ, BCG Analysis

Financial stability | Net debt has increased in LTM while the quality of net debt has deteriorated

Net debt in Italy in bn EUR, 2018–LTM



Net debt by rating[1] in Italy in % and bn EUR, 2018–LTM



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

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)

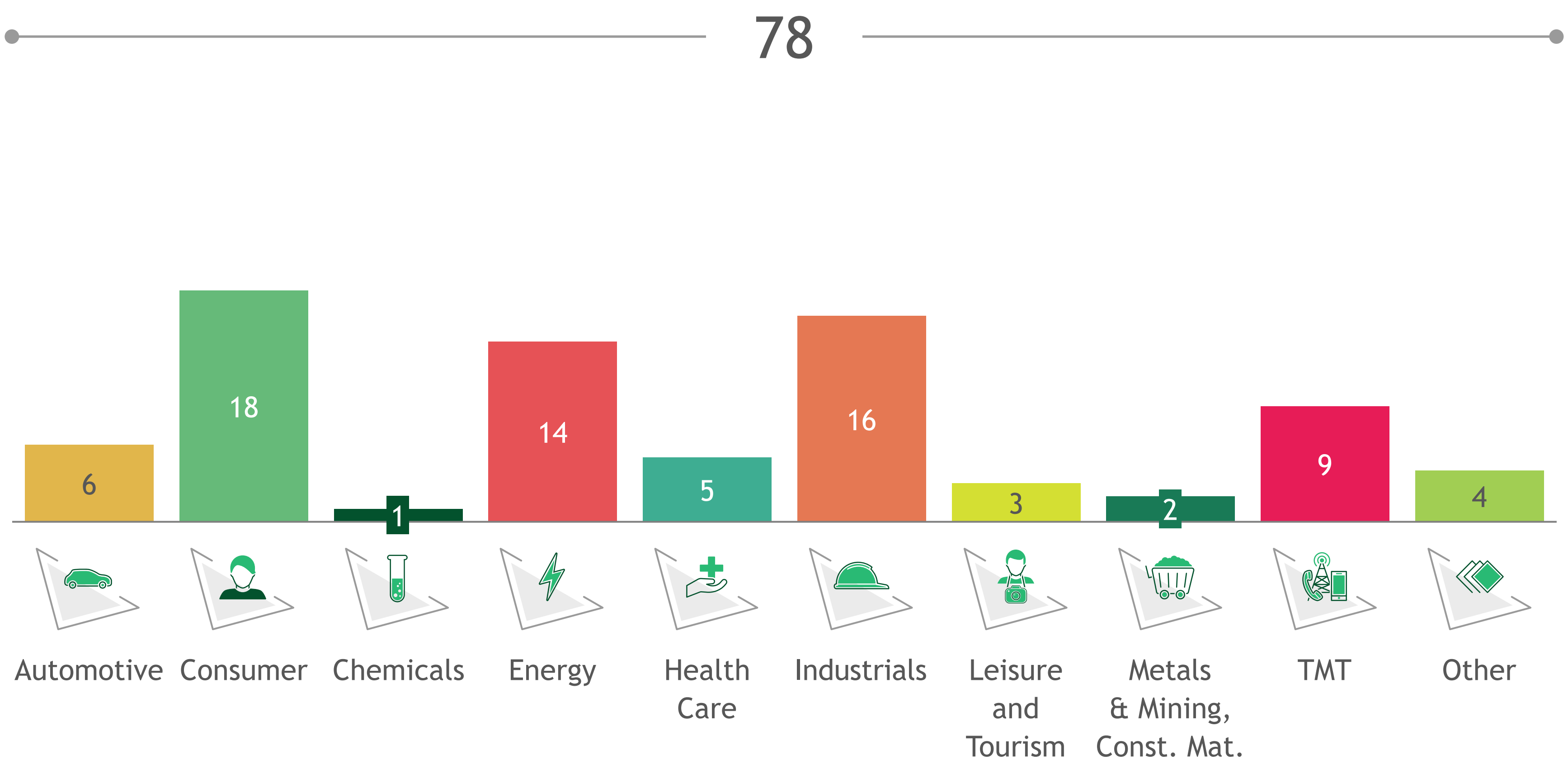
Financial stability

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 Italian companies within each industry in the underlying database

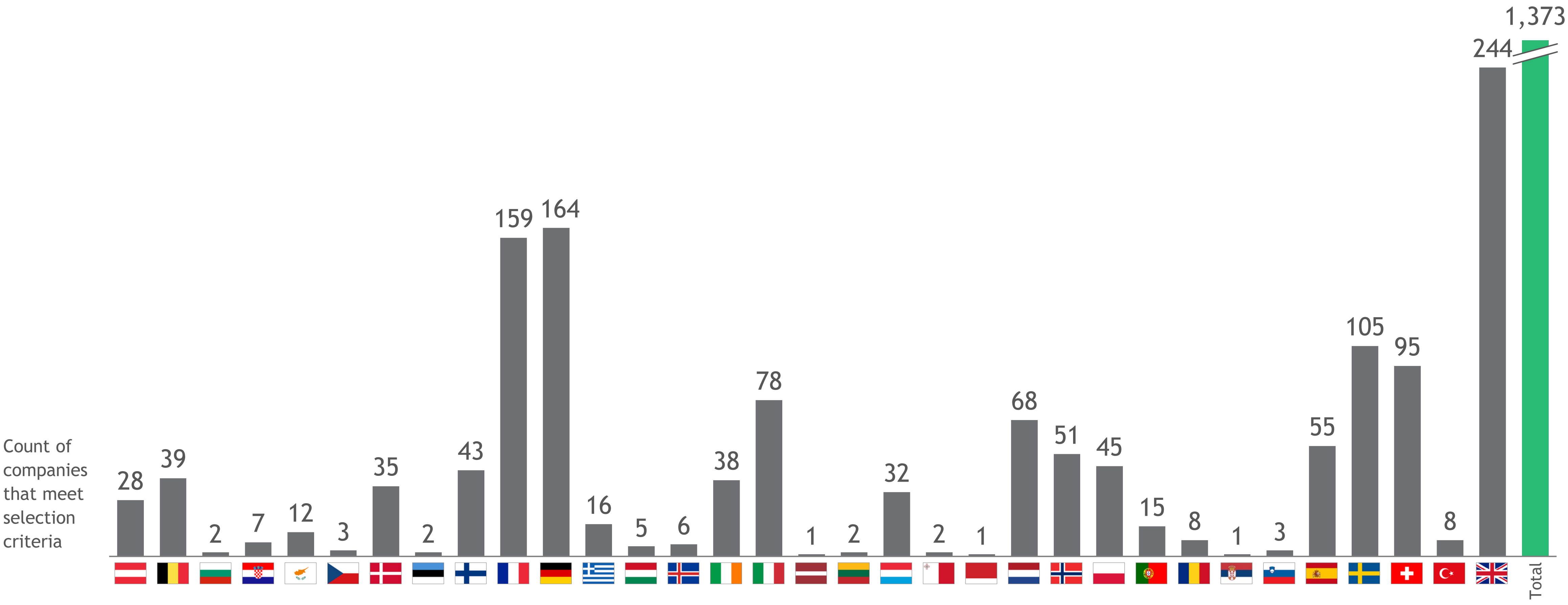


Selection criteria:

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

Source: Capital IQ, BCG Analysis

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



Source: Capital IQ, BCG

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