BCG Transform Index: Nordics

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 companies, from which 234 are from the Nordics, 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 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 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 Chemicals sector scores highly across all dimensions, benefitting from the industry's high degree of diversification stemming from the wide range of application fields of its products
- Although the Energy sector exhibits poor financial stability, it shows high profitability and solvency, with producers benefitting from supply constraints and rising prices

Most impacted sectors

- The Health Care sector struggles primarily in profitability and financial stability with a considerable rise in net debt in LTM
- The Automotive industry's profitability and solvency have been hit particularly hard by rising input prices and supply chain disruptions, as evident in the substantial share of companies with negative FCF (57% in LTM)
- The Consumer sector struggles across all dimensions, most likely due to strong competition and reduced consumer spending in times of high inflation

Ranking compared with European average

- The TMT sector has been more resilient in the Nordics, driven by consolidation across all market segments, particularly in the years 2019 and 2020
- The Nordic Automotive industry has been more severely affected by rising input prices, declining car sales, and supply chain disruptions, which had a strong impact on automotive suppliers

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, capitalmind

Take-aways

Operational view

Post-pandemic, revenue is on the rise, and EBITDA margins have returned to pre-Covid levels except for the consumer sector. However, the rate of profit growth is now slowing down—a trend that is also evident in most other European countries

Solvency

The proportion of Nordic companies with negative free cashflow has increased in LTM, now amounting to 30%. This is higher than the European average of 27%

Financial stability

Net debt increased significantly in 2019, decreased until 2021, and then started rising again in LTM. Unlike other European countries, there has been a positive change in the proportion of investment-grade debt since 2018. In LTM, 73% of the debt is investment grade, which is a much higher percentage than the European average of 45%

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

Points given for industry performance in three dimensions

		Profitability	Solvency	Financial stability	SUM
1	Metals & Mining (European ranking: Metals & Mining)	9	8	10	27
2	Chemicals (European ranking: Chemicals)	8	9	9	26
3	Energy (European ranking: Energy)	10	10	2	22
4	Other (European ranking: Automotive)	5	6	8	19
5	Industrials (European ranking: Other)	7	5	5	17

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

The Consumer sector has experienced the most significant impact in the Nordics, exhibiting notably poorer performance than in the rest of Europe

Points given for industry performance in three dimensions

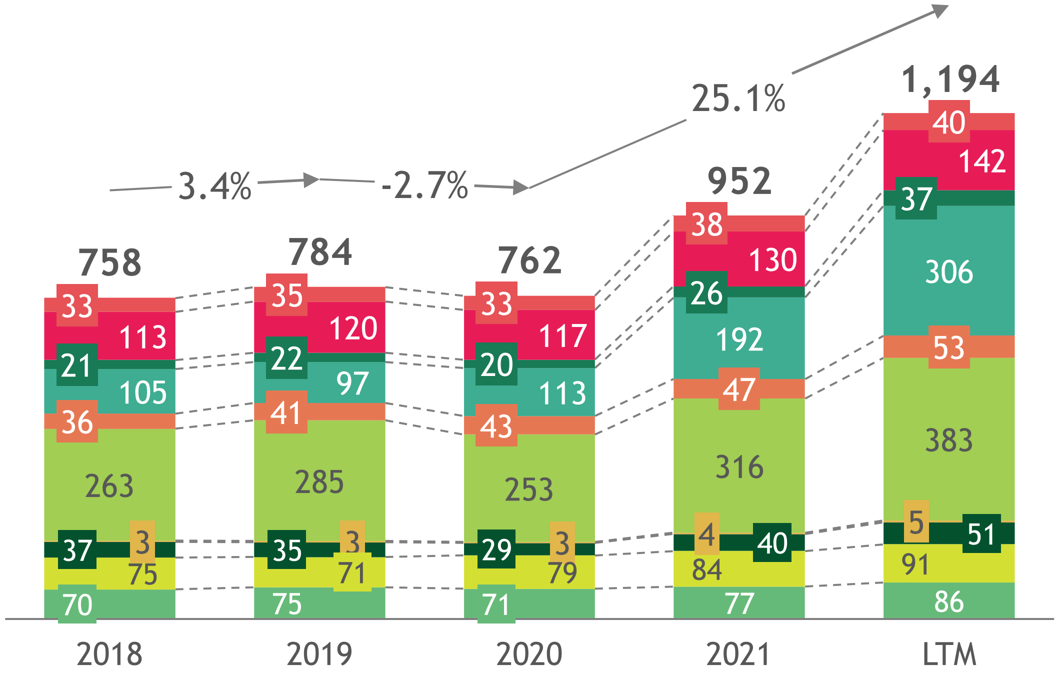
Rank	Industry	European ranking	Profitability	+ Solvency	+ Financial stability	= SUM
6	TMT	Industrials	4	4	8	16
7	Leisure & Tourism	Health Care	6	4	4	14
8	Health Care	Consumer	3	8	2	13
9	Automotive	TMT	1	1	8	10
10	Consumer	Leisure & Tourism	2	2	3	7

Industry position in the European ranking

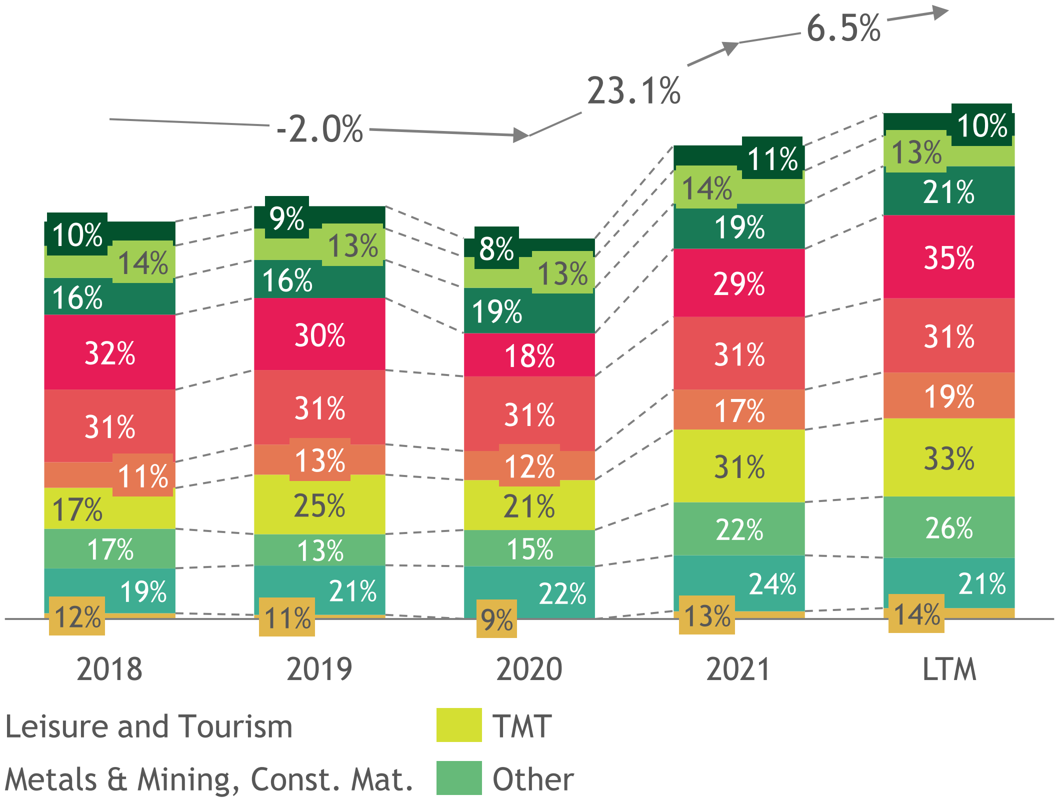
Note: A ranking was assigned to each industry based on its performance in three dimensions. The detailed ranking methodology can be found in the appendix.
Source: Capital IQ, BCG analysis

Operational view | While overall revenues and profitability have exceeded pre-pandemic levels, the rate of profitability growth has started to slow down

Revenue in the Nordics in bn EUR, 2018–LTM



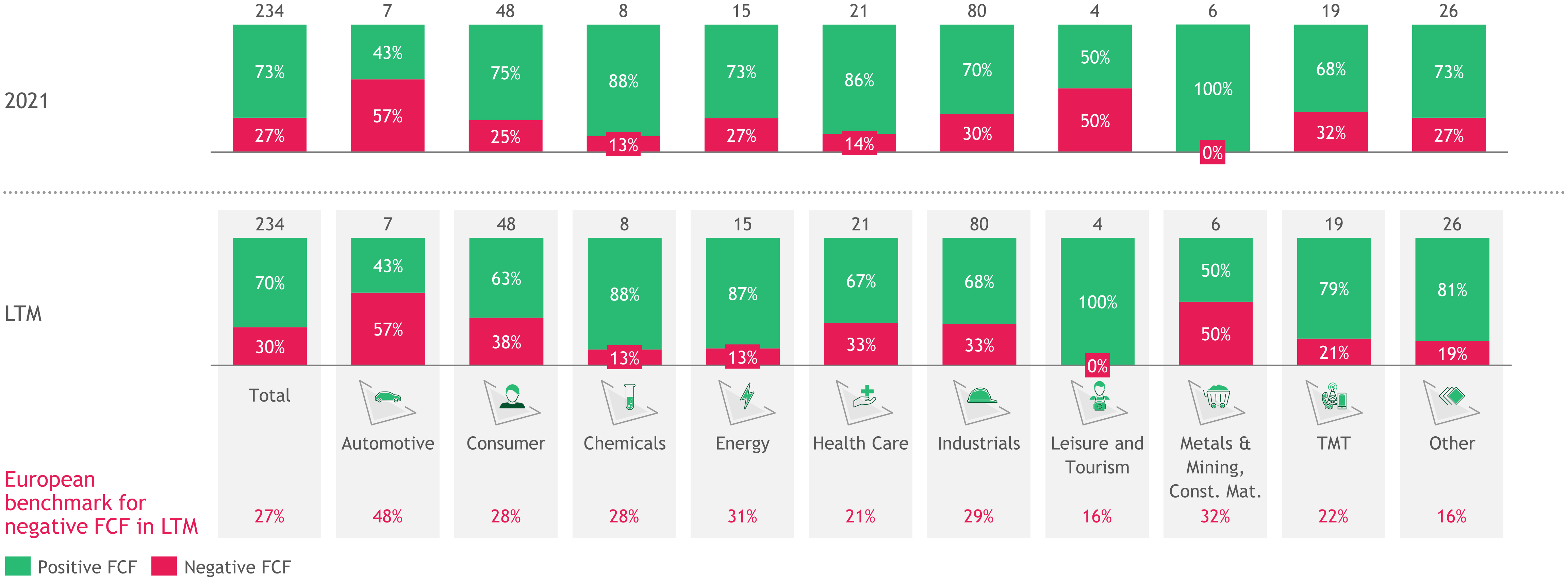
EBITDA margin in the Nordics in %, 2018–LTM



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

Solvency | Following a steep increase in LTM, 30% of Nordic companies have negative FCF, which is slightly higher than the European average of 27%

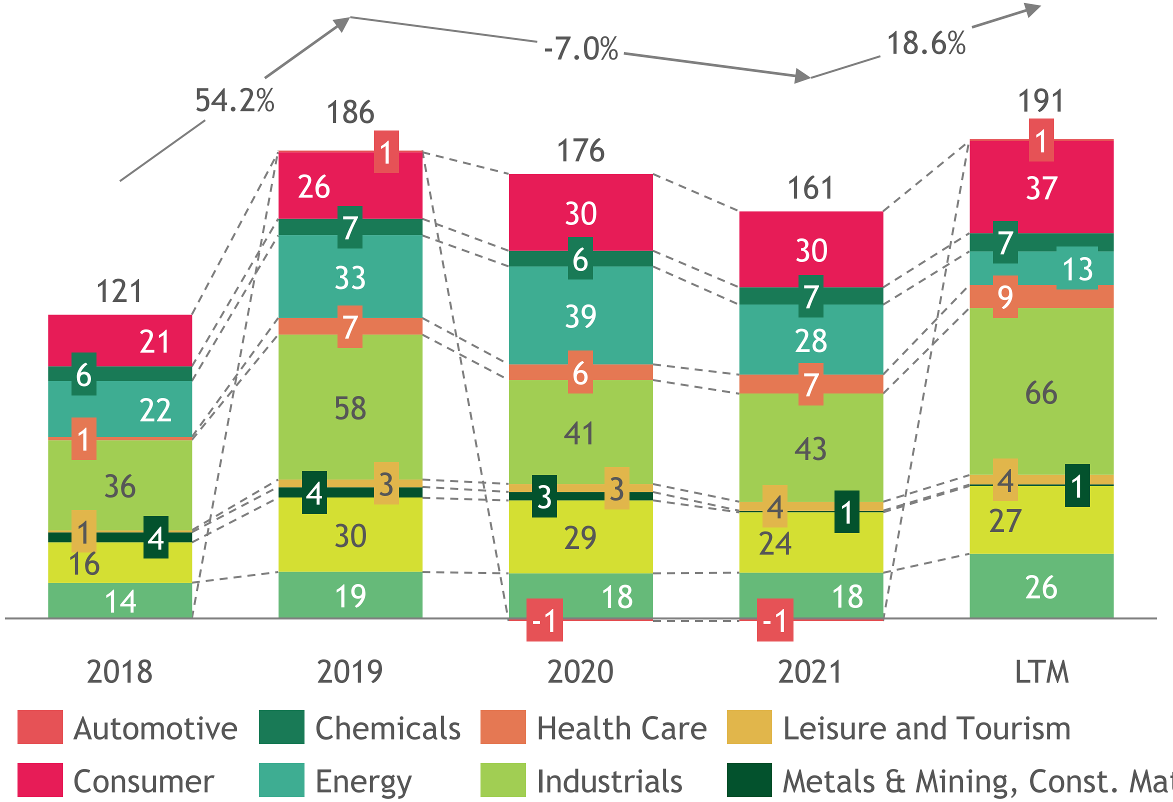
Distribution of companies with negative/positive FCF in 2021 and LTM



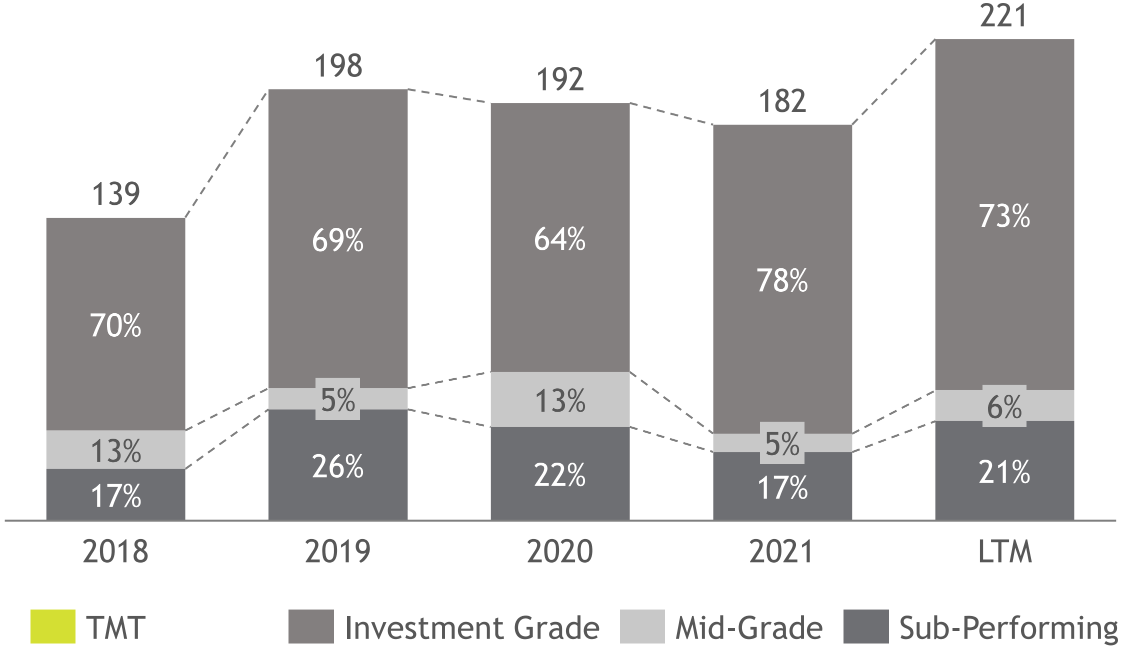
Source: Capital IQ, BCG Analysis

Financial stability | Although there has been a substantial increase in net debt over LTM, the percentage of investment-grade debt remains high

Revenue in the Nordics in bn EUR, 2018–LTM



EBITDA margin in the Nordics in %, 2018–LTM



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)

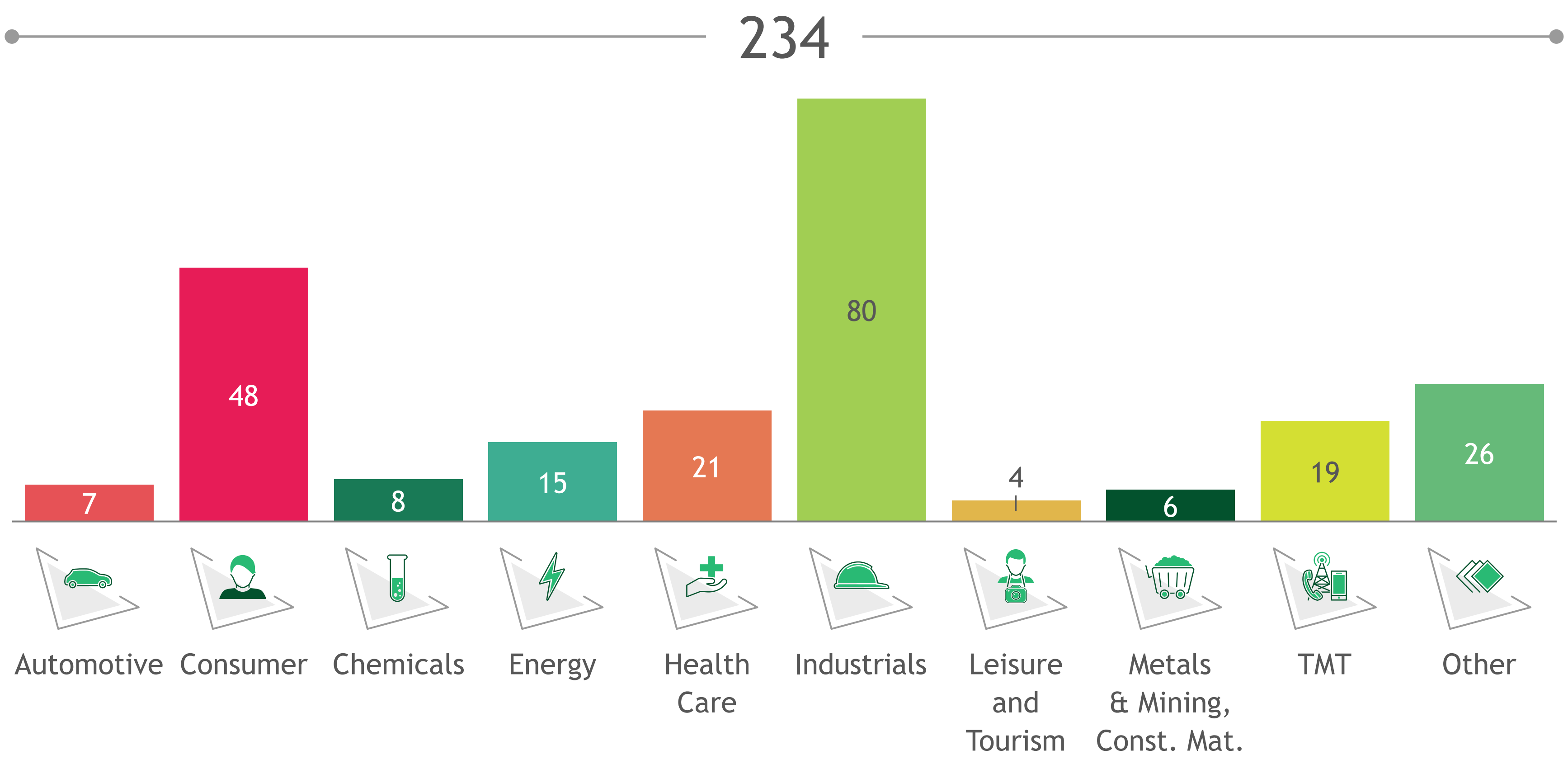
Financial stability

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 Nordic companies within each industry in the underlying database

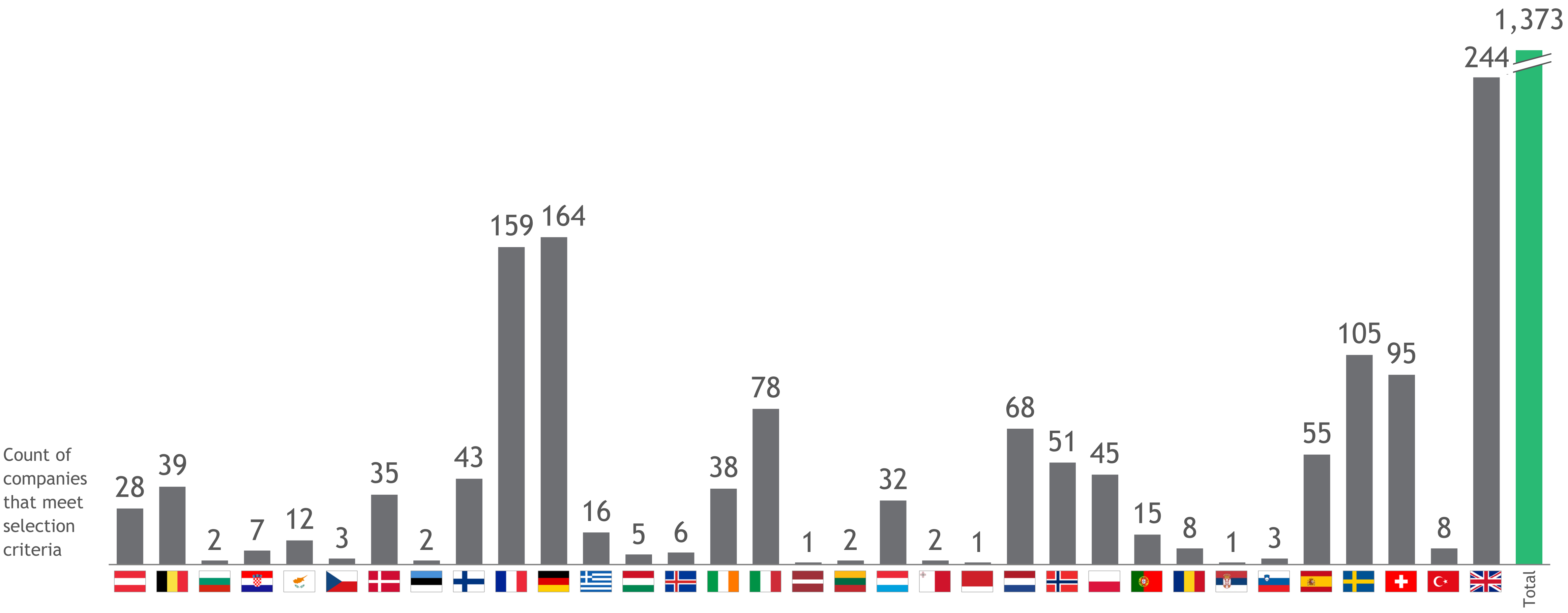


Selection criteria:

- 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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