



BCG Transform Index: Spain & Portugal

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 and 70 Spanish and Portuguese companies that meet the 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 in solvency and financial stability, benefitting from the industry's high degree of diversification stemming from the wide range of application fields of its products

Most impacted sectors

- The **TMT** sector grapples particularly with issues concerning profitability and financial stability with its margins not fully recovered to the pre-pandemic baseline
- The pandemic and current challenges continue to significantly impact the **Leisure and Tourism** industry, particularly in terms of profitability and financial stability with lower margins compared with 2018
- The **Industrials** sector struggles across all dimensions, 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 Spanish and Portuguese sector **Other** containing companies in areas as diverse as printing, cork production, and environmental services has performed notably better than in the European ranking
- The Spanish and Portuguese **Industrials** sector has been more severely hit by increasing input prices, high energy costs, and supply chain disruptions compared to the European average

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

Revenues have surpassed pre-pandemic levels, however EBITDA margins have not yet returned to pre-Covid levels in all sectors. Furthermore, the momentum for profit growth is now slowly waning, a trend that is also evident in the European area



Solvency

The proportion of companies in Spain and Portugal with negative free cashflow in LTM is 20%, which is lower than the European average of 27%



Financial stability

Net debt has risen in LTM for the first time since 2019, with just 20% of it being investment grade. This performance is markedly below Europe's 45% investment-grade debt and among the poorest shares in the European region





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 Metals & Mining	10		10		9		29
2		Chemicals Chemicals	9		7		10		26
3		Other Energy	6		9		6		21
4		Automotive Automotive	7		3		9		19
5		Consumer Other	5		6		7		18

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



Although the Industrial sector ranks relatively high in Europe, it is the most severely affected industry in Spain and Portugal

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

			Profitability	+	Solvency	+	Financial stability	=	SUM
6		Energy Industrials	8		8		2		18
7		Health Care Health Care	4		5		4		13
8		TMT Consumer	3		5		3		11
9		Leisure & Tourism TMT	2		3		6		11
10		Industrials Leisure & Tourism	1		1		1		3

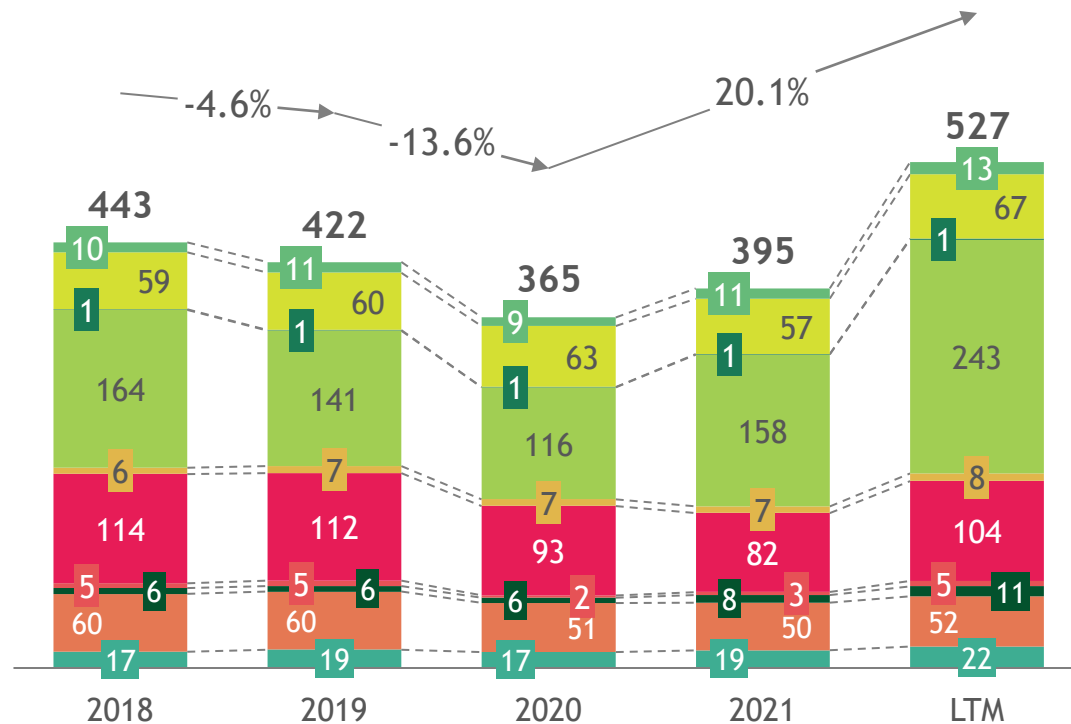
Industry position in the European ranking

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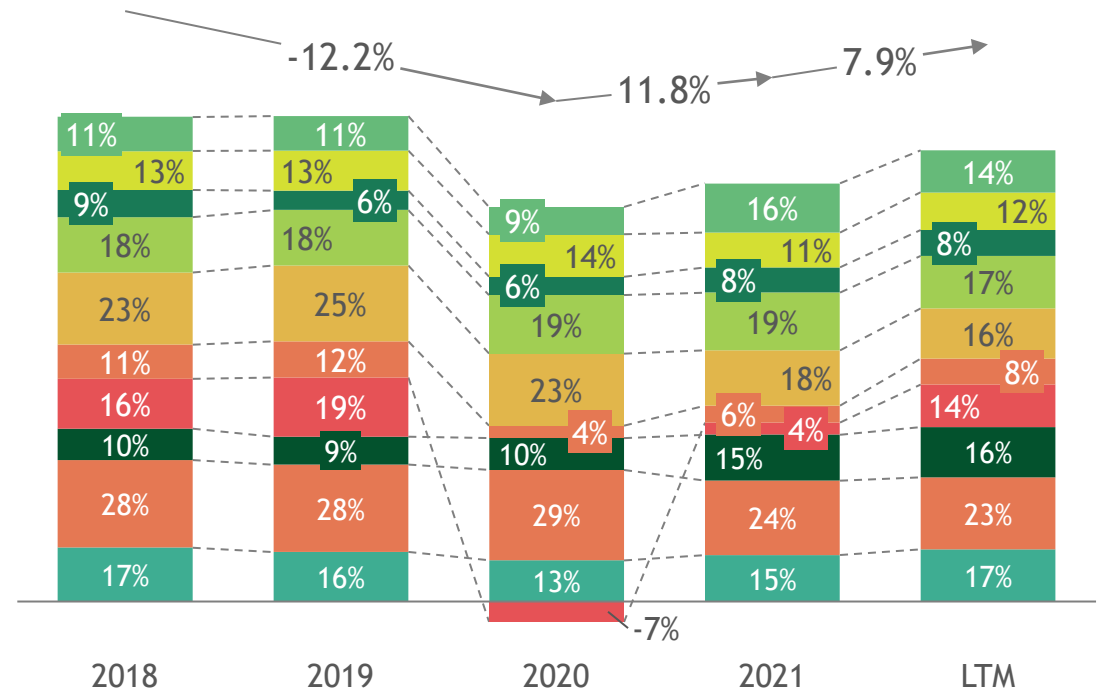


Operational view | While revenues have surpassed pre-pandemic levels, EBITDA margins have not yet fully recovered in several sectors

Revenue in Spain and PT in bn EUR, 2018-LTM



EBITDA margin in Spain and PT in %, 2018-LTM



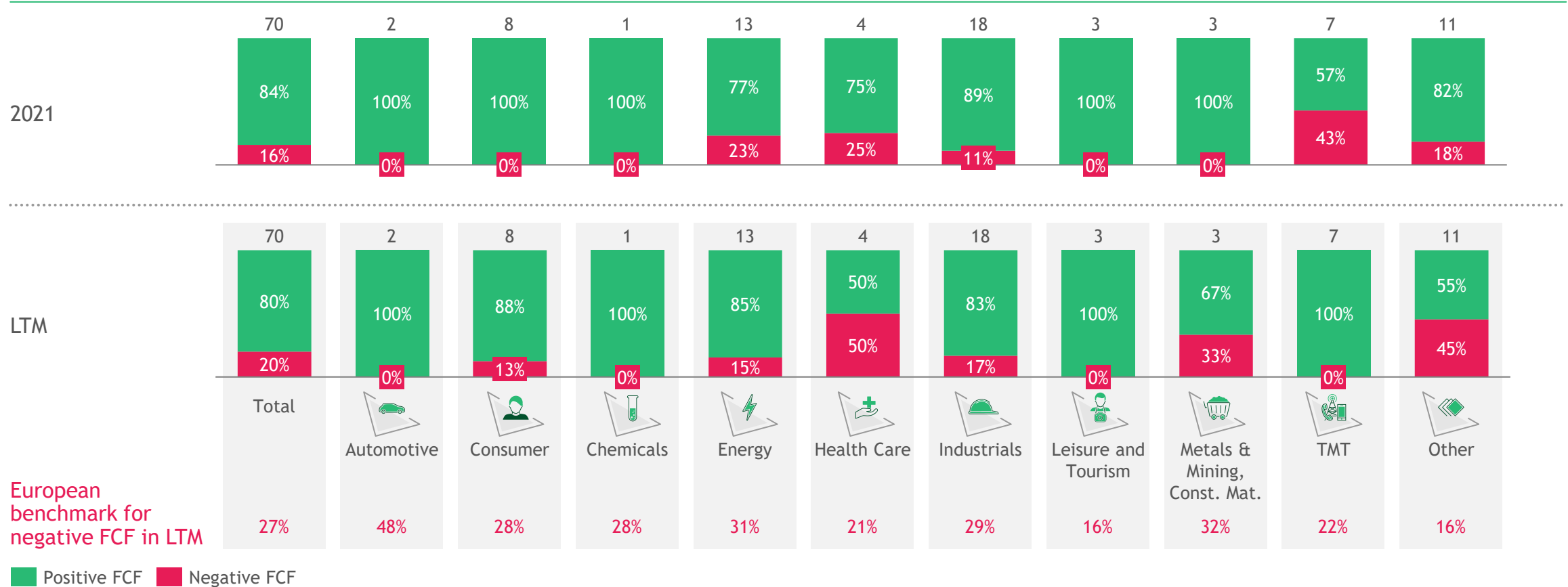
- Automotive
- Chemicals
- Health Care
- Leisure and Tourism
- TMT
- Consumer
- Energy
- Industrials
- Metals & Mining, Const. Mat.
- Other

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



Solvency | 20% of Spanish and Portuguese companies have negative FCF in LTM, which is below the European average of 27%

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

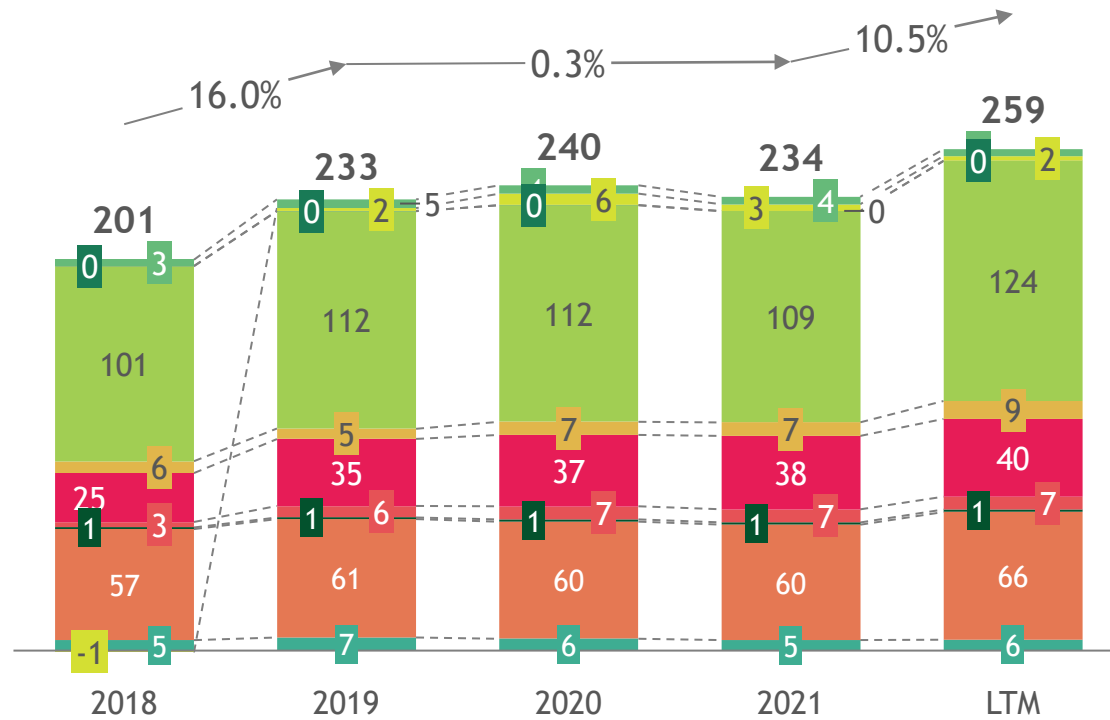


Note: The number of companies within each sector is lower than 5 in Automotive, Chemicals, Health Care, Leisure and Tourism, and Metals & Mining, Const. Mat.
 Source: Capital IQ, BCG Analysis

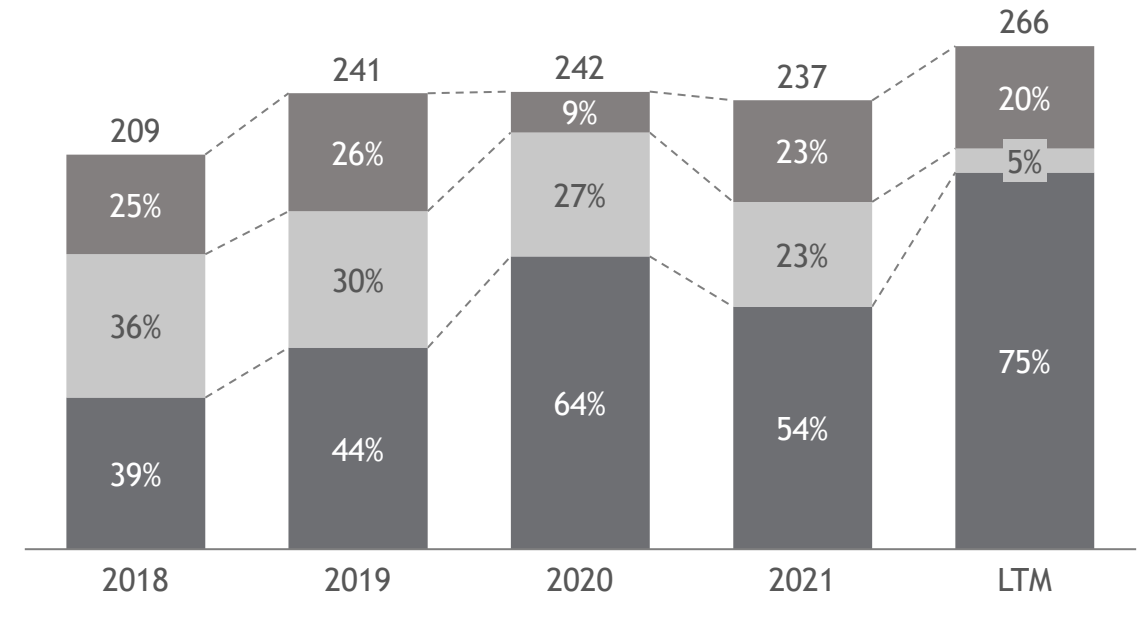


Financial stability | Net debt has increased significantly in LTM, with the percentage of sub-performing debt notably higher than 2018 baseline

Net debt in Spain and PT in billion EUR, 2018-LTM



Net debt by rating¹ in Spain and PT 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 debt. If EBITDA is negative, net debt is automatically classified as sub-performing.

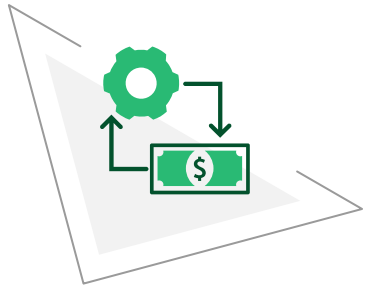
Source: Capital IQ, BCG Analysis



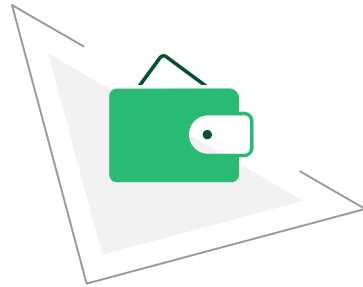
Appendix

Ranking methodology

Profitability



Solvency



Financial stability



Total ranking



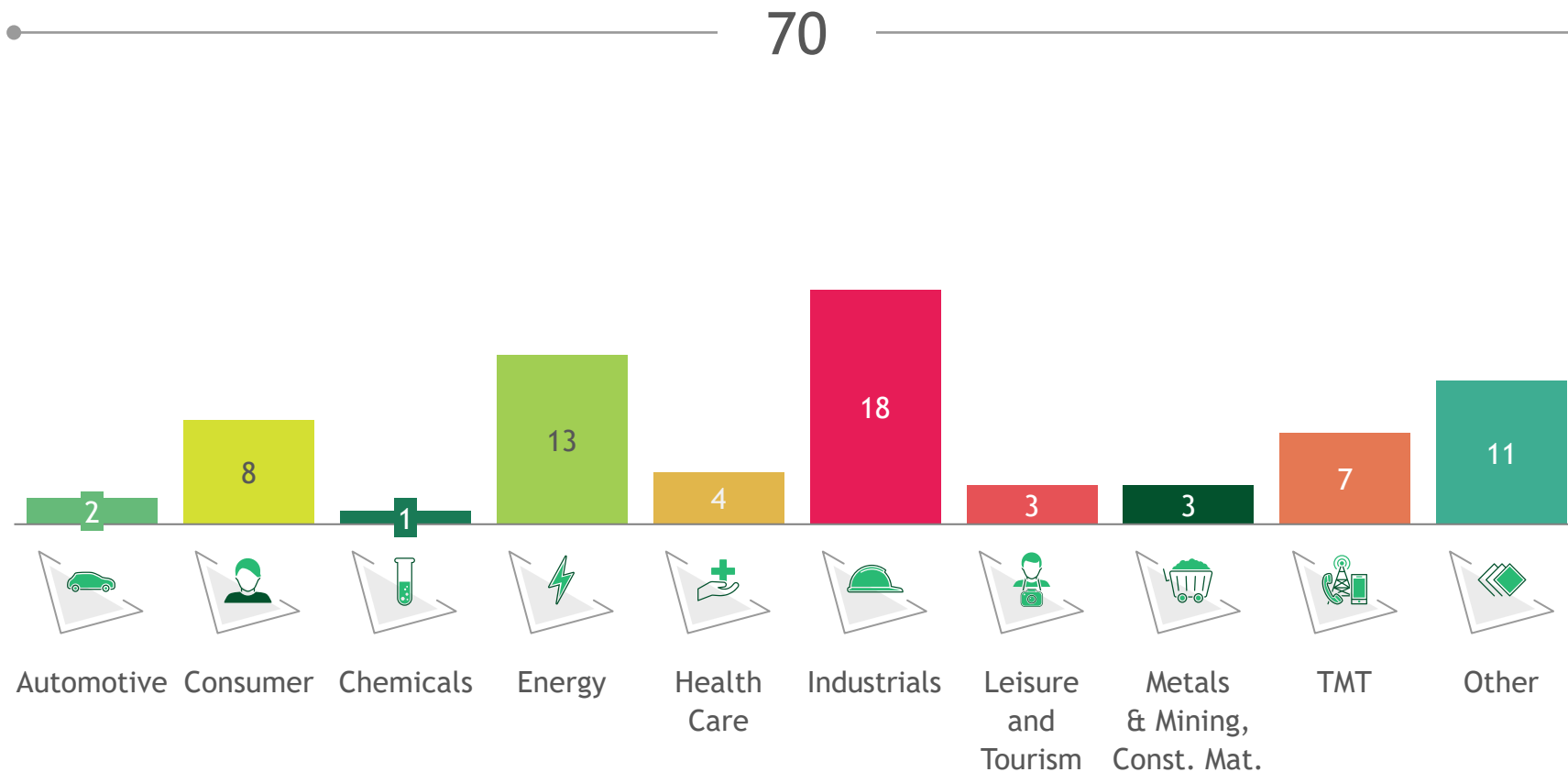
The profitability ranking is based on **EBITDA growth between 2019 and LTM**, with the industry having the lowest EBITDA growth being assigned the fewest points (1) and the industry with strongest EBITDA growth the most points (10)

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

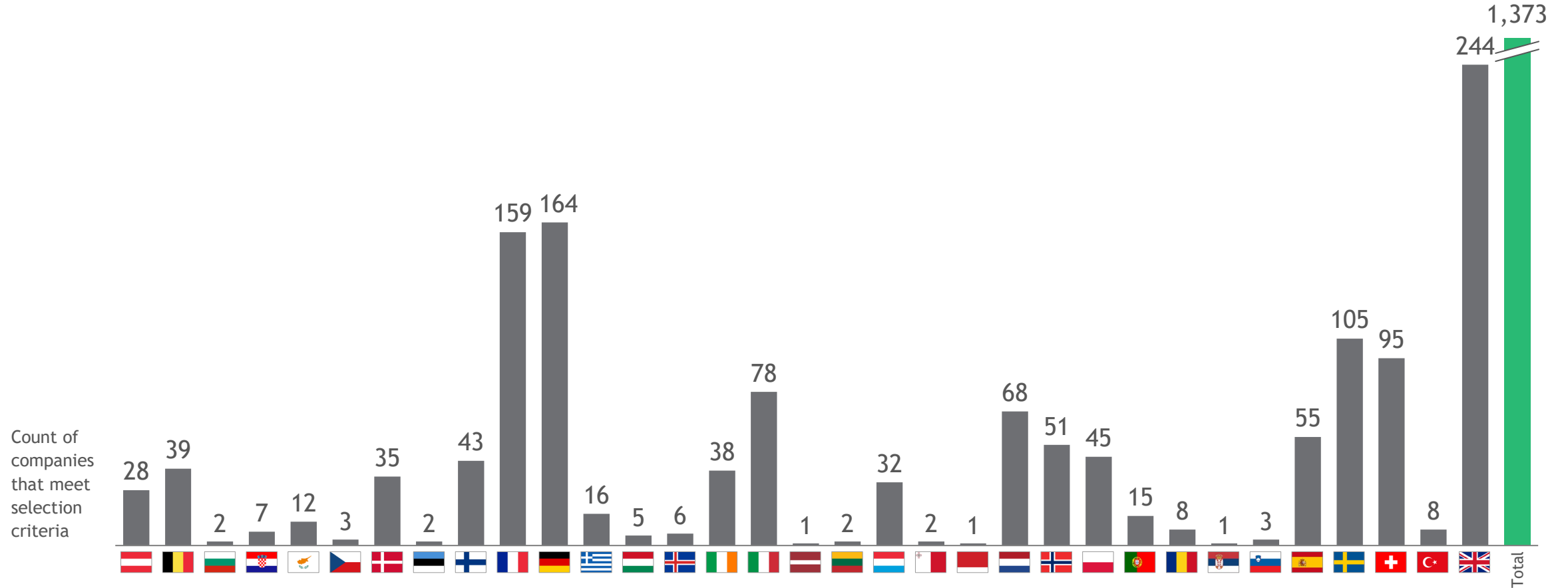
Number of Spanish and Portuguese companies within each industry in the underlying database



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



Industry breakdown

Other	Prosegur Compañía de Seguridad, S.A. Indra Sistemas S.A. Semapa - Sociedade de Investimento e Gestão The Navigator Company Applus Services, S.A. Prosegur Cash, S.A. Vidrala, S.A. ENCE Energía y Celulosa, S.A. Corticeira Amorim, S.G.P.S., S.A. Altri, SGPS, S.A.

■ Industry
 ■ Companies



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