BOSTON CONSULTING GROUP

BCG Transform Index: Switzerland

Financial study on sector performance

MAY, 2023

TRF

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 95 are from Switzerland, 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 scores highly in profitability and financial stability, benefitting from the industry's high degree of diversification that stems from the wide range of application fields of its products
- The Metals & Mining sector scores highly in solvency and financial stability, capitalizing on the surging demand after the pandemic and price increase from constrained supply in recent past
- Although the Industrials sector exhibits poor financial stability, it shows high profitability and solvency due to high-quality manufacturing, innovative potential, and strong infrastructure enabling efficient operations

Most impacted sectors

- The Automotive sector struggles primarily in profitability and financial stability which can be traced back to the sample being solely comprised of automotive suppliers that suffer disproportionally from rising inflation
- Despite strong scores in financial stability and decent profitability, the Health Care sector struggles in solvency, most likely due to higher input prices and major upfront investments
- The Consumer sector grapples particularly with issues concerning profitability, facing challenges from strong competition and opportunistic consumer spend behaviour

Ranking compared with European average

- The Leisure and Tourism sector has fared better in Switzerland compared with other European countries due to diversified tourism offerings, strong marketing efforts and strong reputation for safety and reliability
- The Swiss Automotive industry has been severely affected in recent years due to the low bargaining power of its automotive supplier companies that are not able to pass on mounting input prices to OEMs

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

Post-pandemic, revenue is on the rise across all sectors, and for more than half of the sectors EBITDA margins have returned to pre-Covid levels. However, the momentum for profit growth is now waning, with EBITDA margins slightly declining in LTM—a trend that is evident in the European area as well

Solvency

The proportion of Swiss companies with negative free cashflow has risen steeply in LTM, reaching 21%, which is below the European average of 27%

Financial stability

In 2019 and in LTM, the net debt increased significantly reaching a notably higher level compared with the baseline in 2018. Unlike other European countries, there has not been much change in the proportion of investment-grade debt since 2018. In LTM, 88%% of the debt is investment grade, which is a higher percentage than the European average of 45%

Sectors providing essential inputs for industrial production have proven to be resilient; Leisure and Tourism is notably outperforming the European average

Points given for industry performance in three dimensions

Rank	Industry	European ranking	Profitability	+	Solvency	+	Financial stability	=	SUM
1	Chemicals	Metals & Mining	8		6		10		24
2	Metals & Mining	Chemicals	4		10		9		23
3	Industrials	Energy	9		9		3		21
4	Leisure & Tourism	Automotive	10		4		6		20
5	Energy	Others	7		4		5		16

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 Swiss Automotive sector performs well below the European average and has been significantly impacted by the pandemic

Points given for industry performance in three dimensions

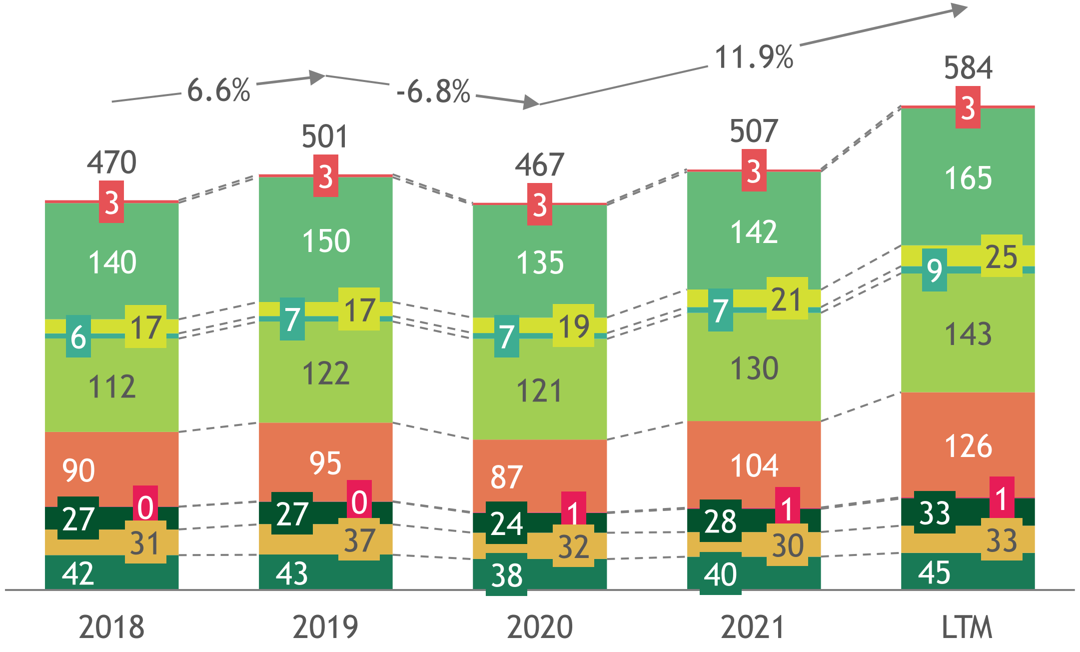
Rank	Industry	European ranking	Profitability	+ Solvency	+ Financial stability	= SUM
6	TMT	Industrials	5	4	7	16
7	Consumer	Health Care	3	8	5	16
8	Health Care	Consumer	6	1	8	15
9	Other	TMT	2	6	3	11
10	Automotive	Leisure & Tourism	1	7	3	11

Industry position in the European ranking

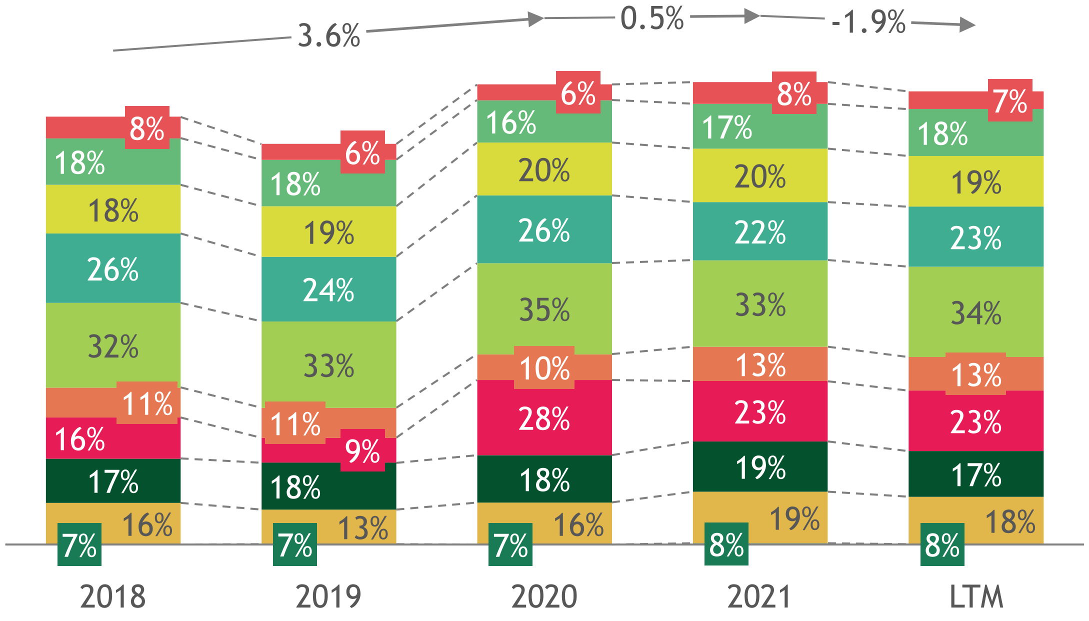
Note: A ranking was assigned to each industry based on its performance in three dimensions. The detailed ranking methodology can be found in the appendix; If the same total score is exhibited by two or more sectors, the industry with the better score in profitability is ranked higher; Source: Capital IQ, BCG analysis

Operational view | Although overall revenue and EBITDA levels have surpassed the pre-pandemic baseline, profitability has deteriorated in LTM

Revenue in Switzerland in bn EUR, 2018-LTM



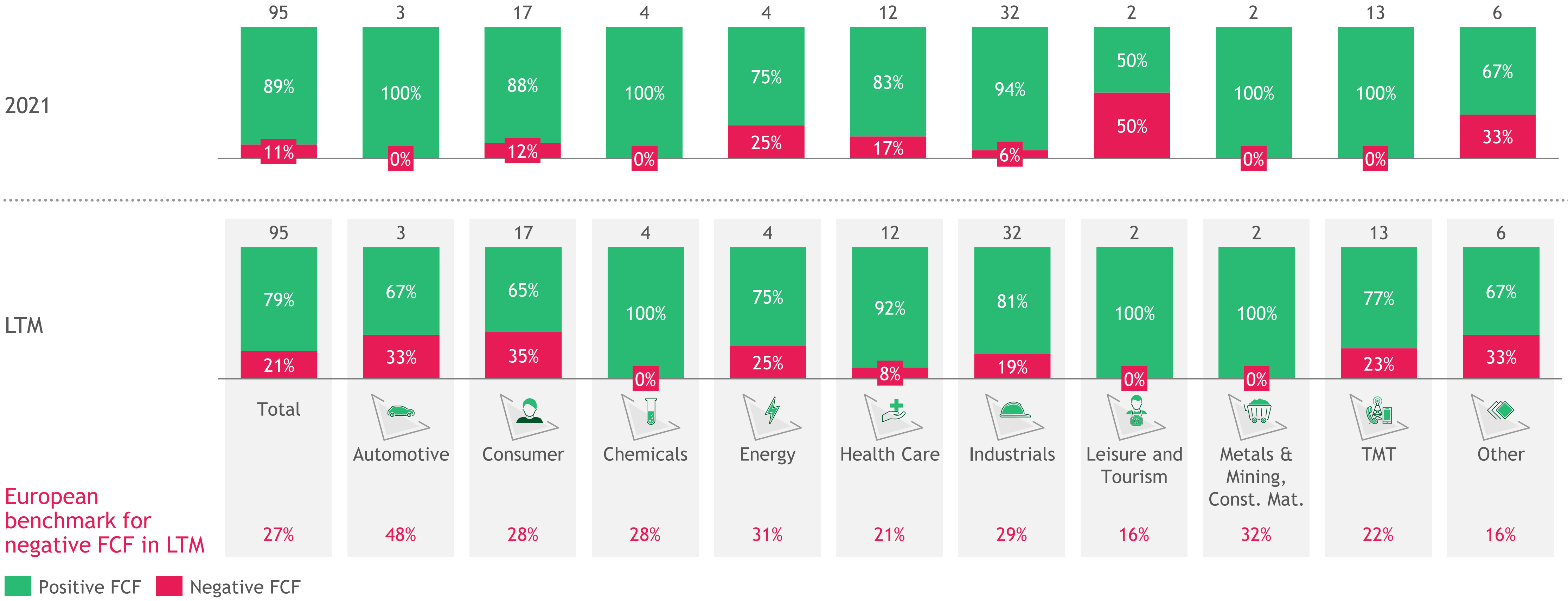
EBITDA margin in Switzerland in %, 2018-LTM



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

Solvency | After a steep rise in 2021, 21% of Swiss companies have negative FCF, although this figure remains lower than the European average

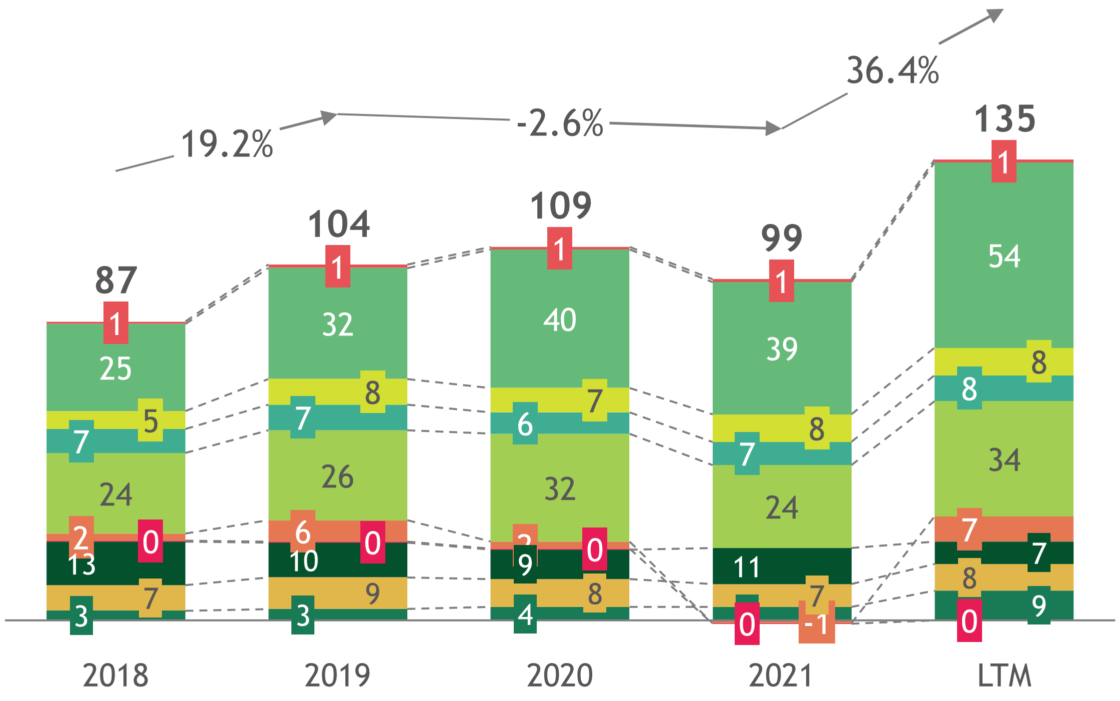
Distribution of companies with negative/positive FCF in 2021 and LTM



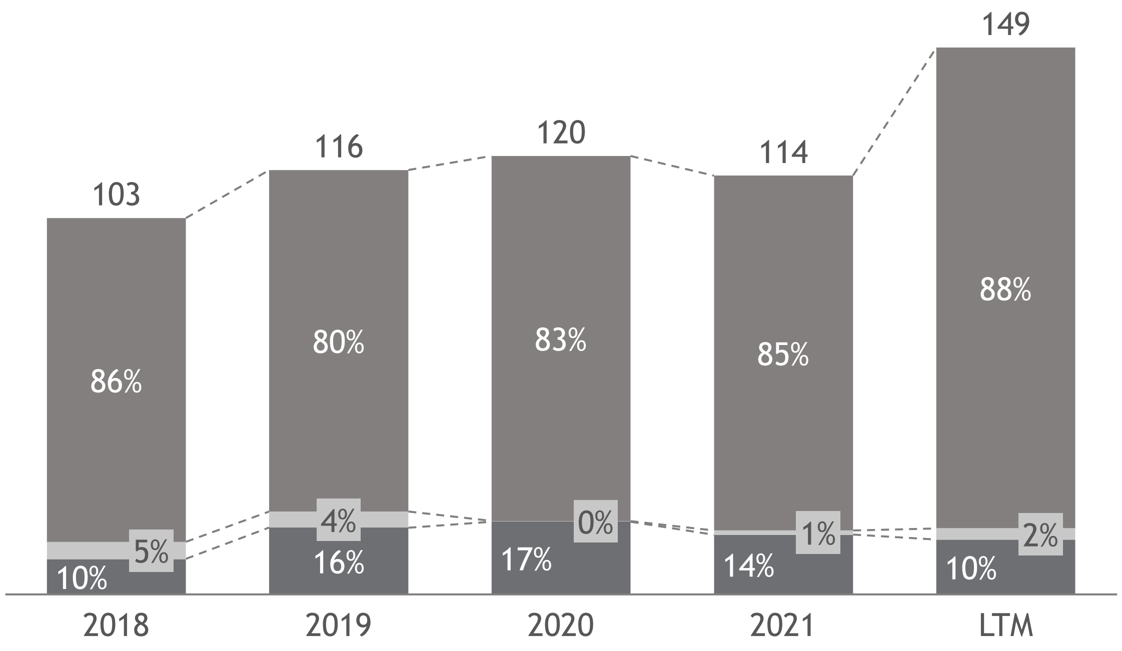
Source: Capital IQ, BCG Analysis

Financial stability | Despite a sharp increase in net debt over the LTM, the share of investment-grade debt is marginally higher than pre-pandemic levels

Net debt in CH in billion EUR, 2018–LTM



Net debt by rating[1] in CH 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

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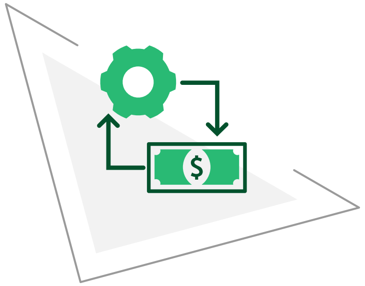
Appendix

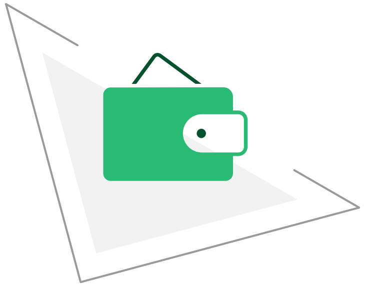
Ranking methodology

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)

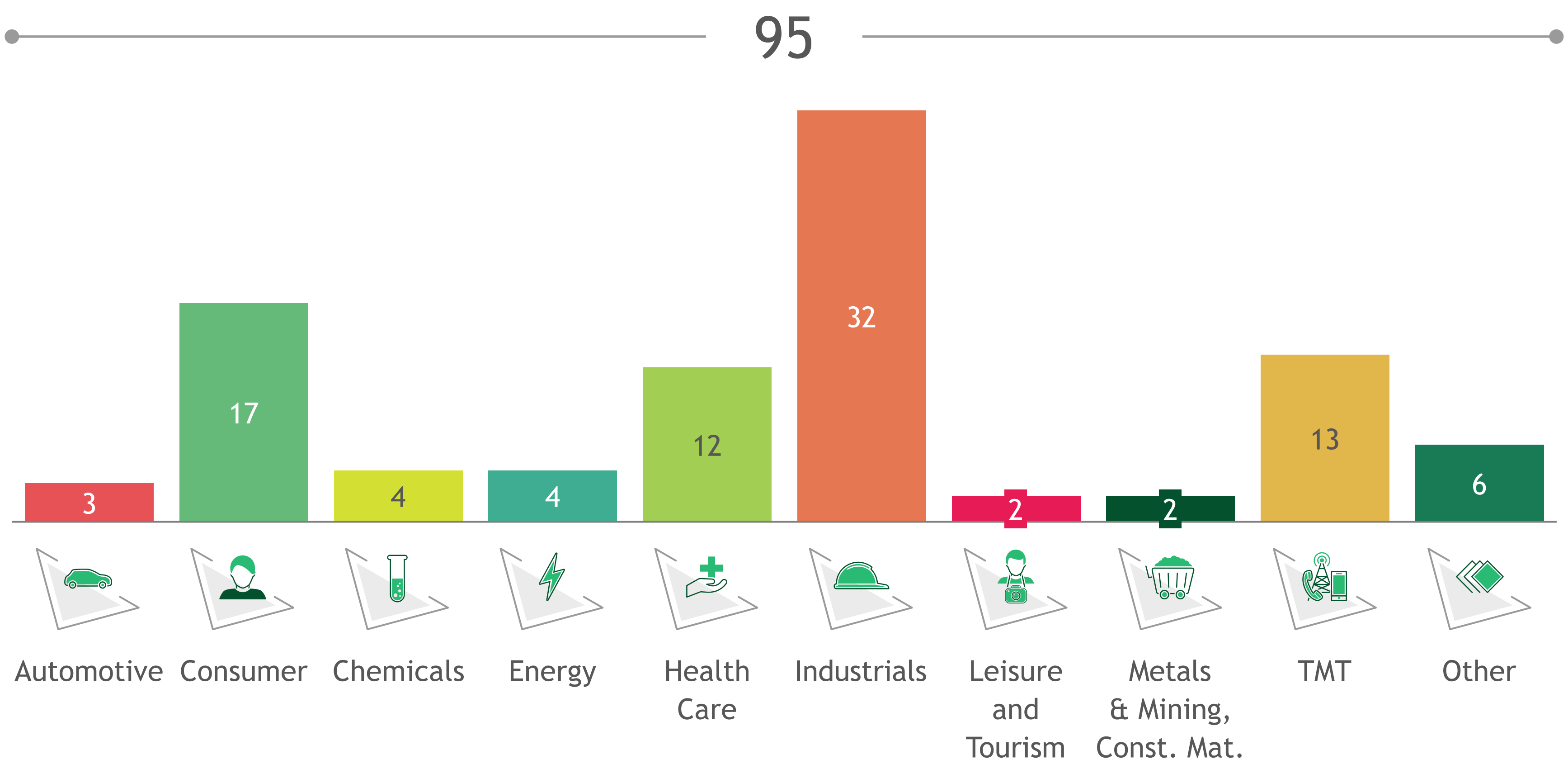
Financial stability

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 Swiss companies within each industry in the underlying database

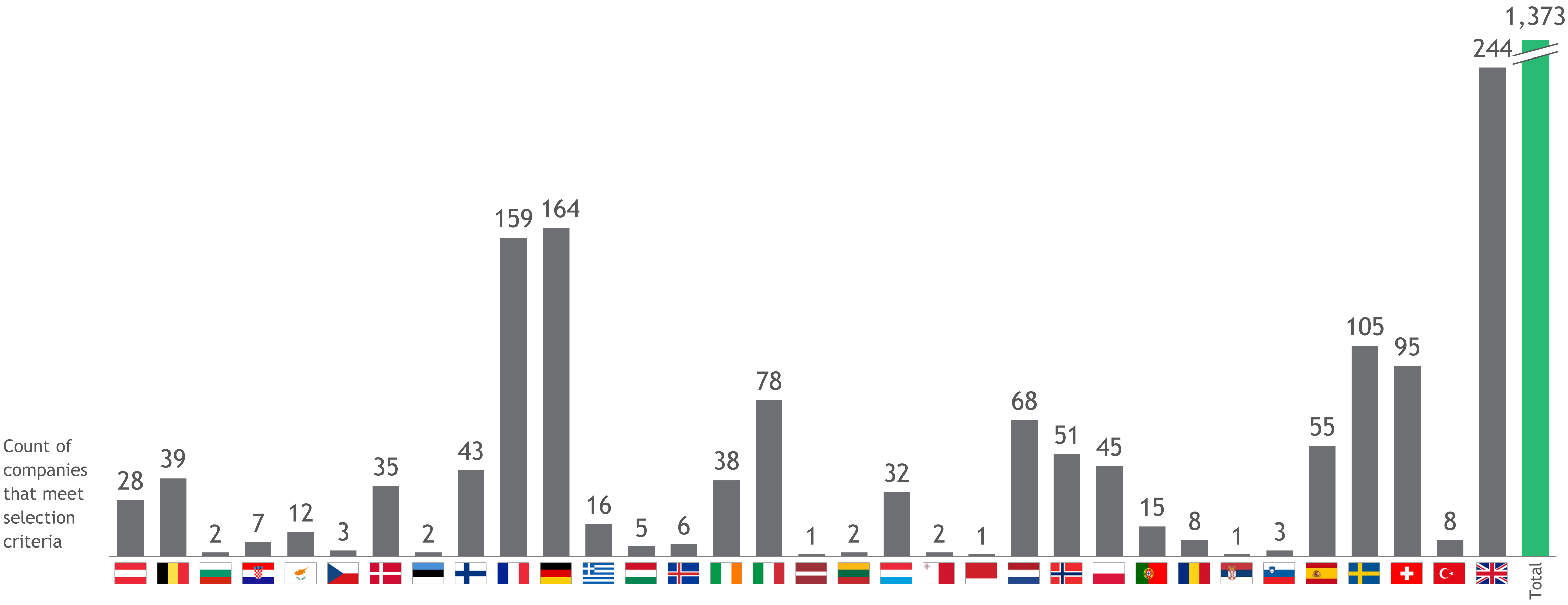


Selection criteria:

- 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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