



BCG Transform Index: Eastern Europe

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 74 are from Eastern Europe, 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

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
- Although the **Energy** sector exhibits mediocre financial stability, it shows robust profitability and solvency, with producers benefitting from supply constraint and rising prices
- The **Health Care** sector performs above average in solvency and financial stability, but only mediocre in profitability with EBITDA margins levelling off after the demand-driven rise during the Covid pandemic

Most impacted sectors

- The **Industrials** sector grapples with issues regarding solvency, underscored by a skyrocketing number of companies with negative free cashflow in LTM most likely due to high inflation
- The **Consumer** sector demonstrates robust solvency, but scores poorly in profitability and financial stability, impacted by strong competition and potential reduction in consumer spend in times of high inflation
- The **Automotive** sector struggles primarily in profitability with significantly lower margins compared with the 2018 baseline due to rising input prices and car sales slowly declining

Ranking compared with European average

- The Eastern European **Health Care** sector has been more resilient compared with the European average, capitalizing on digitalization and the increased demand for health care services since the pandemic
- The smaller **Automotive** sector in Eastern Europe has been more severely hit by increasing input prices, supply chain disruptions, and declining car sales—most likely also due to the high proportion of supplier companies

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

Following the aftermath of the pandemic, revenues and EBITDA have surpassed pre-Covid levels, and are currently experiencing a growth momentum. This trend is in contrast with recent developments in other European countries where profit growth is already waning in the face of the current headwinds



Solvency

The proportion of Eastern European companies with negative free cash flow in the LTM is 50%, which is markedly above the European average of 27% and reflects a challenging macroeconomic environment with high inflation and soaring interests



Financial stability






Net debt is continually decreasing since 2019 and is of high quality, with 79% of it being investment grade. This is a strikingly strong performance compared with Europe's 45% investment-grade debt






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 | 8 | | 8 | | 8 | | 24 |
| 2 |  | Other¹ Chemicals | 9 | | 9 | | N/A | | 18 |
| 3 |  | Energy Energy | 6 | | 7 | | 4 | | 17 |
| 4 |  | Health Care Automotive | 4 | | 6 | | 6 | | 16 |
| 5 |  | Chemicals Other | 7 | | 2 | | 6 | | 15 |

 Industry position in the European ranking

1. The sector Other consists of only 1 company in Eastern Europe and is thus not representative. The number of companies within each industry can be found in the appendix






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



Automotive is the most severely affected industry, with performance in Eastern Europe notably worse than in the European ranking

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

| | | | Profitability | + | Solvency | + | Financial stability | = | SUM |
|----|---|---|---------------|---|----------|---|---------------------|---|-----|
| 6 |  | TMT Industrials | 2 | | 3 | | 8 | | 13 |
| 7 |  | Industrials Health Care | 5 | | 1 | | 4 | | 10 |
| 8 |  | Consumer Consumer | 3 | | 5 | | 1 | | 9 |
| 9 |  | Automotive TMT | 1 | | 4 | | 4 | | 9 |
| 10 |  | Leisure & Tourism Leisure & Tourism | N/A | | N/A | | N/A | | N/A |

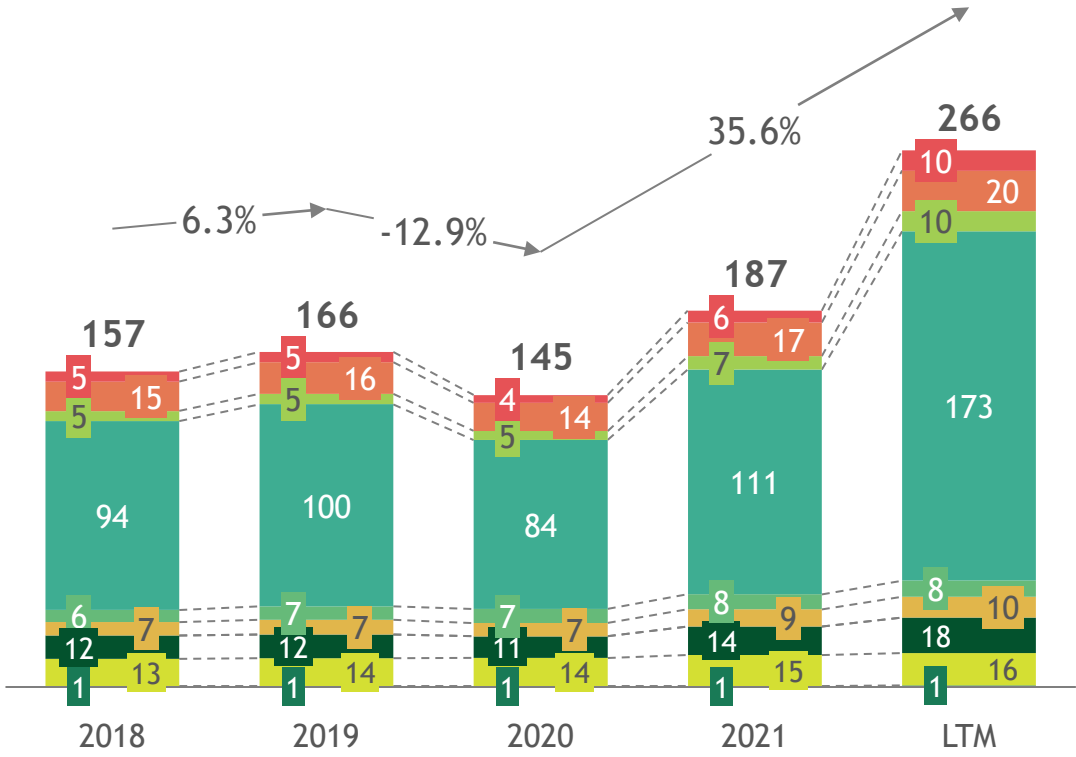
 Industry position in the European ranking

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 9 points is exhibited by both Consumer and Automotive. However, since Consumer performs notably better in profitability, it is ranked higher; Source: Capital IQ, BCG analysis

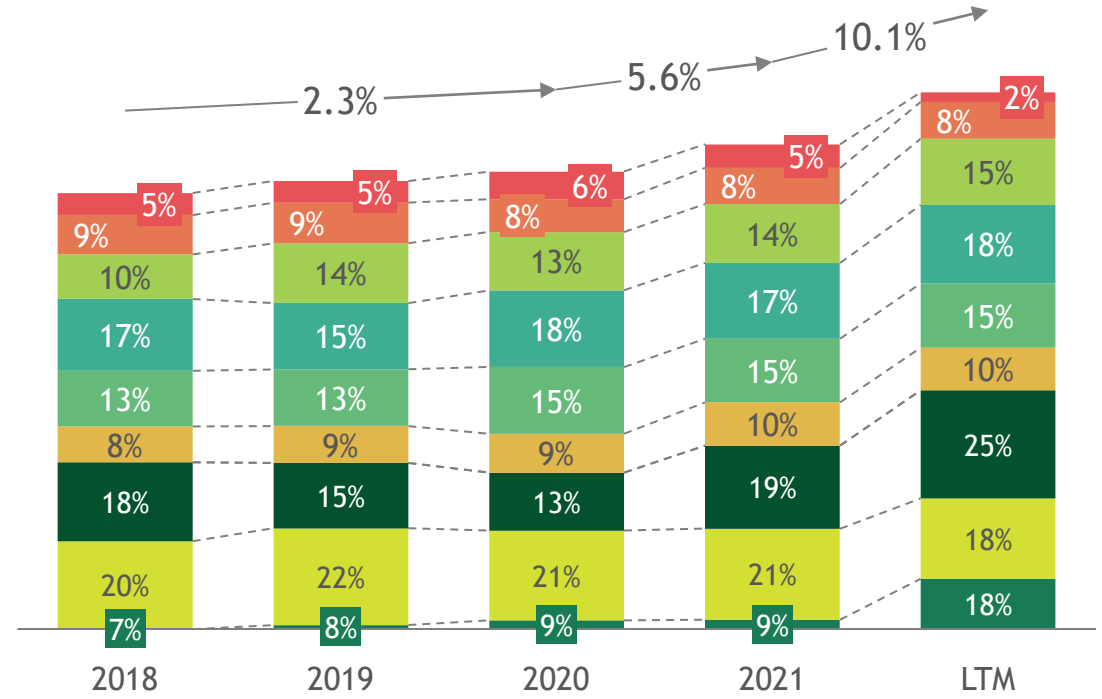


Operational view | Both revenues and EBITDA margin have mostly surpassed pre-pandemic levels, and are currently experiencing a growth momentum

Revenue in Eastern Europe in bn EUR, 2018-LTM



EBITDA margin in Eastern Europe in %, 2018-LTM



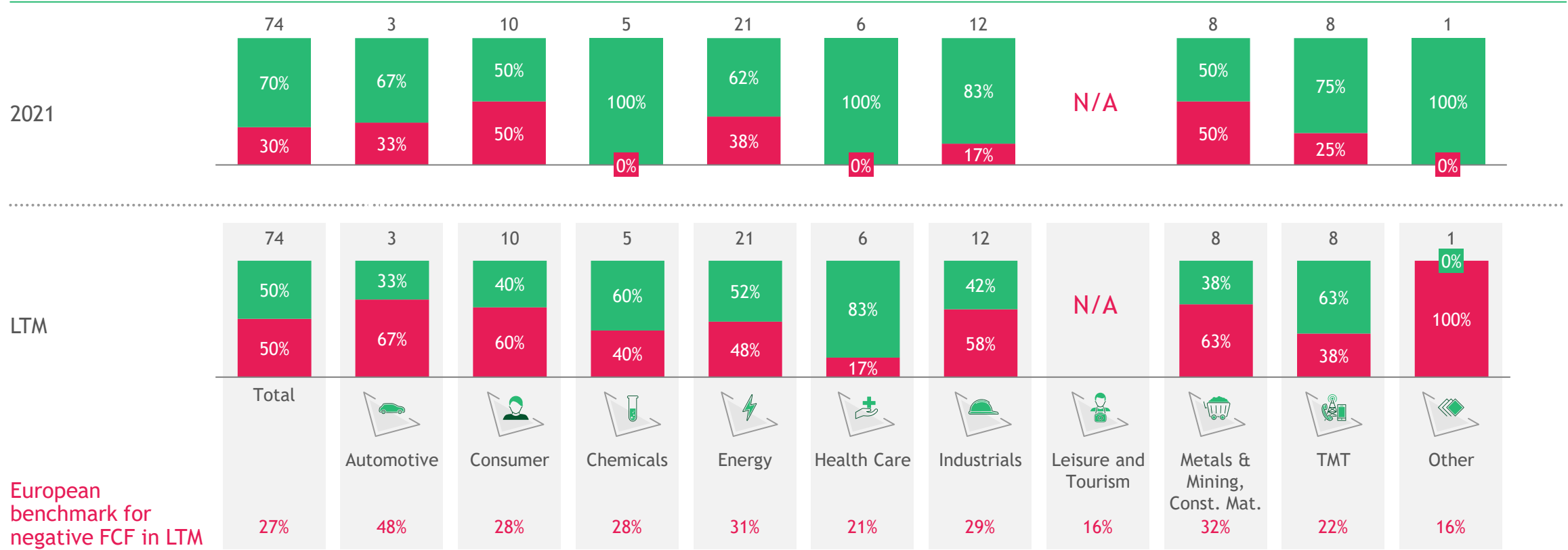
- Automotive
- Consumer
- Energy
- Health Care
- Industrials
- Metals & Mining, Const. Mat.
- Leisure and Tourism
- Other
- TMT

Note: LTM = LTM Q3-2022; No data for Leisure and Tourism available
Source: Capital IQ, BCG Analysis



Solvency | 50% of Eastern European companies 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



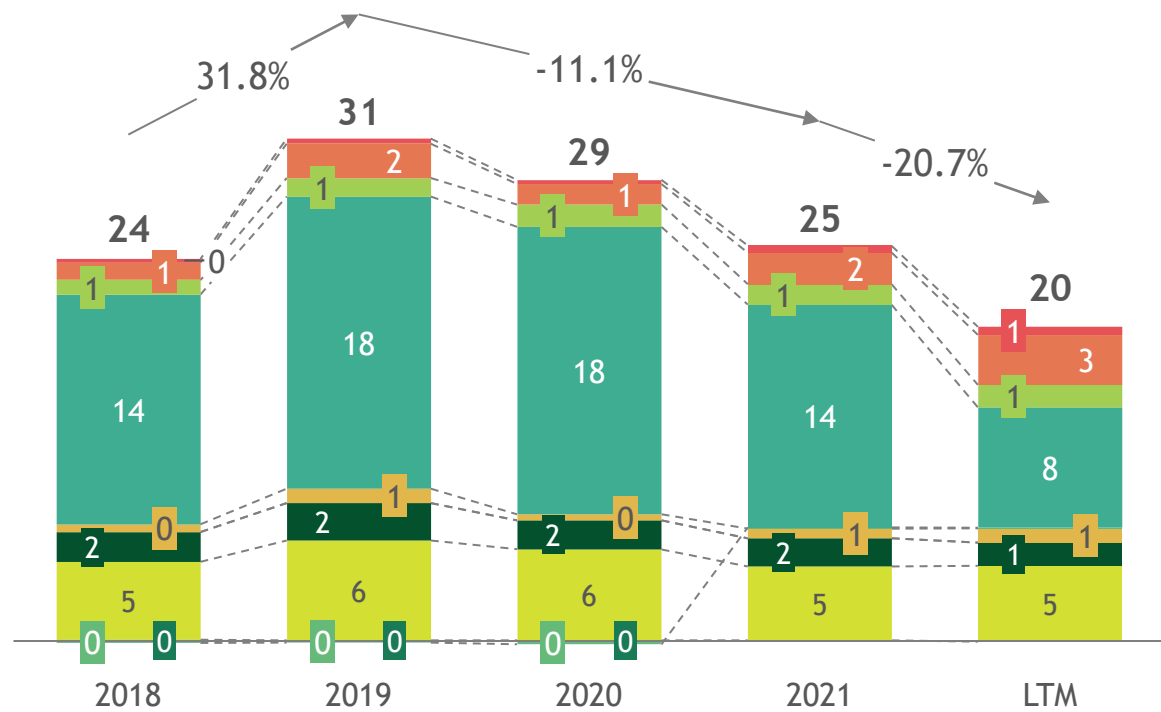
Positive FCF Negative FCF

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

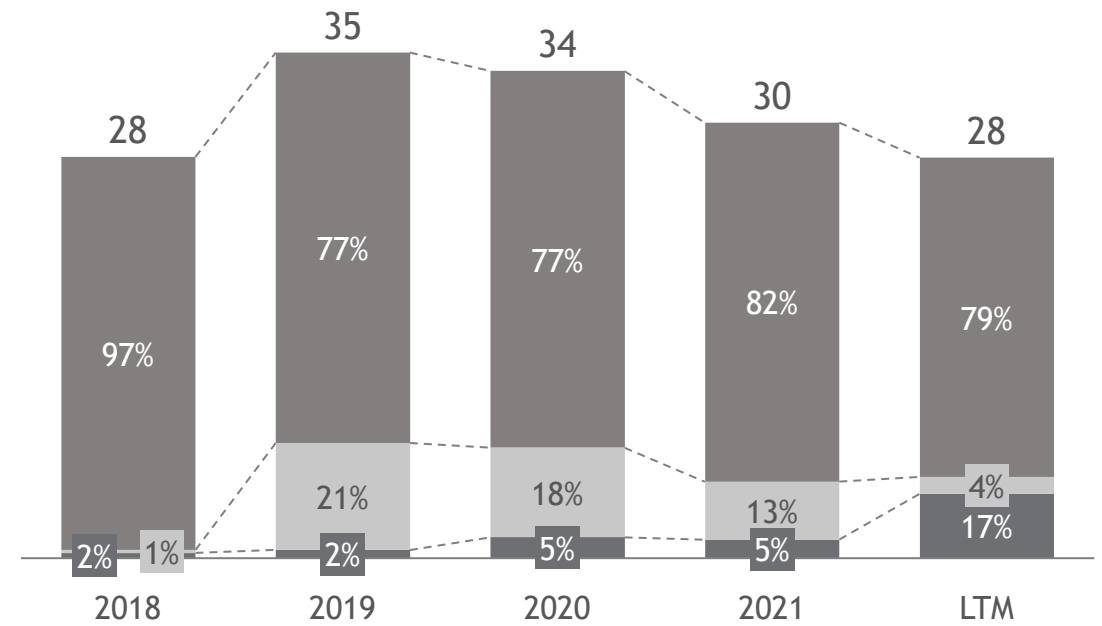


Financial stability | Eastern Europe is in a favorable situation due to steadily decreasing net debt since 2019 and high proportion of investment grade debt

Net debt in BE & NL in bn EUR, 2018-LTM



Net debt by rating¹ in BE & NL 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. If EBITDA is negative, net debt is automatically classified as sub-performing.

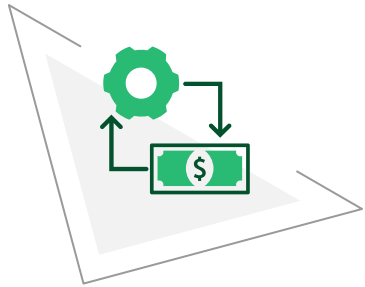
Source: Capital IQ, BCG Analysis



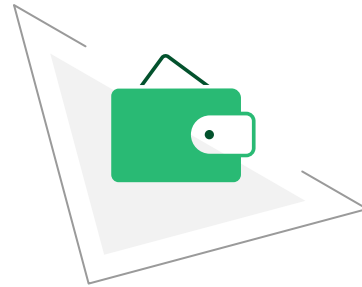
Appendix

Ranking methodology

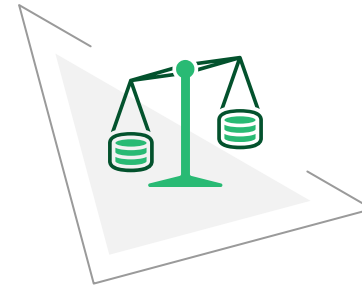
Profitability



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)

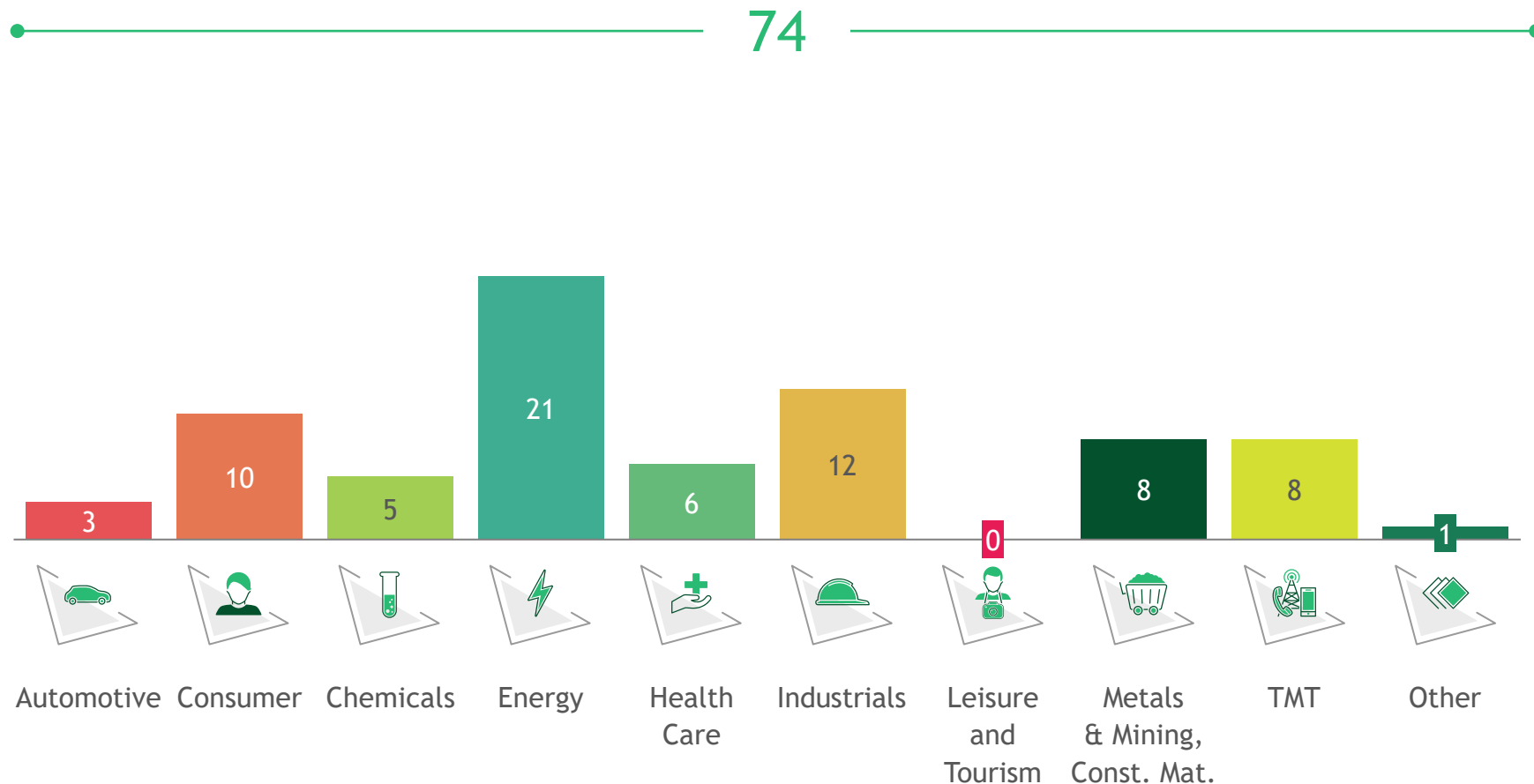
The solvency ranking is based on the **growth sector's overall cash account LTM, the percentage of companies with growth in cash LTM, and the interest coverage ratio**, with the worst overall performance assigned the fewest points (1 point) and the strongest the most points (10)

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



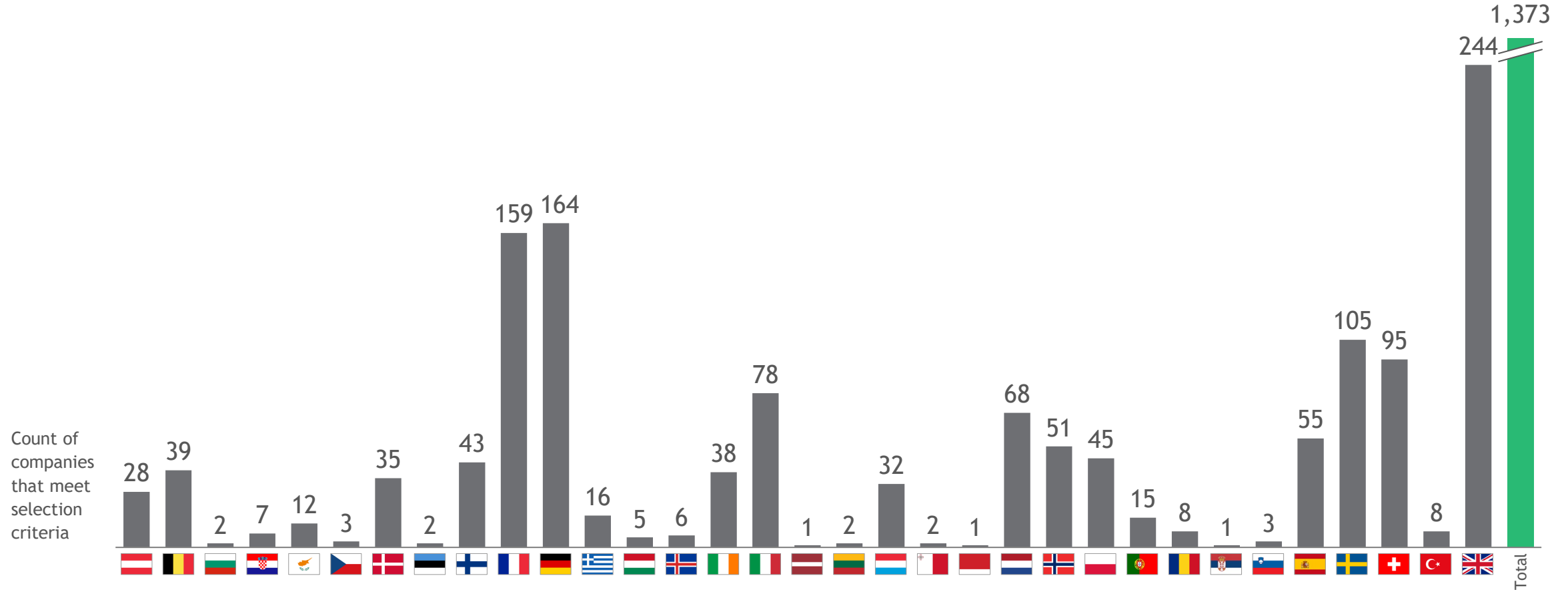
Number of Eastern European companies within each industry in the underlying database



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





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