



BCG Transform Index: Germany & Austria

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 192 are from Germany or Austria, 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 **Health Care** sector exhibits high scores in profitability and solvency, taking advantage of digitalization and the increase in demand for health care services since the pandemic
- The **Metals & Mining** sector scores highly in profitability and financial stability, capitalizing on the surging demand after the pandemic and price increase from constrained supply in recent past
- The **Chemicals** sector scores above average in all dimensions, benefitting from the industry's high degree of diversification (wide range of application fields of its products) and broad participation in past economic uplift

Most impacted sectors

- The **Consumer** sector grapples particularly with issues concerning profitability, facing challenges from strong competition and opportunistic consumer spend behaviour
- The **TMT** sector sees challenges along all major KPIs and might see further impacts from upcoming economic challenges
- The pandemic and current challenges continue to significantly impact the **Leisure and Tourism** industry, which struggles across all dimensions, most notably in profitability with negative EBITDA margins since 2020

Ranking compared with European average

- The German and Austrian **Health Care** sector has seen a strong development since the pandemic compared to the European view
- Other sectors in line with ranking as per 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

Take-aways



Operational view

Post-pandemic, revenue is on the rise across all sectors and has surpassed pre-Covid levels. However, EBITDA margins have not yet returned to pre-Covid levels in selected industries, notably the Leisure and Tourism industry that still exhibits a negative EBITDA margin in LTM



Solvency

The proportion of companies with negative free cashflow has risen steeply in the LTM, now amounting to 38%. This is markedly above the European average of 27%



Financial stability

Net debt has risen significantly in LTM for the first time since 2019, with just 25% of it being rated investment grade. This performance is notably worse than Europe's already sobering 45% investment-grade debt



Sectors that provide fundamental input for industrial production proved to be the most successful amidst the past crises – Health Care in G&A outstanding

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

			Profitability	+	Solvency	+	Financial stability	=	SUM
1		Health Care	9		9		6		24
		Metals & Mining							
2		Metals & Mining	7		4		10		21
		Chemicals							
3		Chemicals	6		6		8		20
		Energy							
4		Energy	10		8		1		19
		Automotive							
5		Automotive	5		10		4		19
		Other							

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



Leisure and Tourism remains the industry that has been most severely affected

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

			Profitability	+	Solvency	+	Financial stability	=	SUM
6		Industrials Industrials	8		7		3		18
7		Other Health Care	4		2		9		15
8		Consumer Consumer	2		5		7		14
9		TMT TMT	3		3		5		11
10		Leisure & Tourism Leisure & Tourism	1		1		3		5

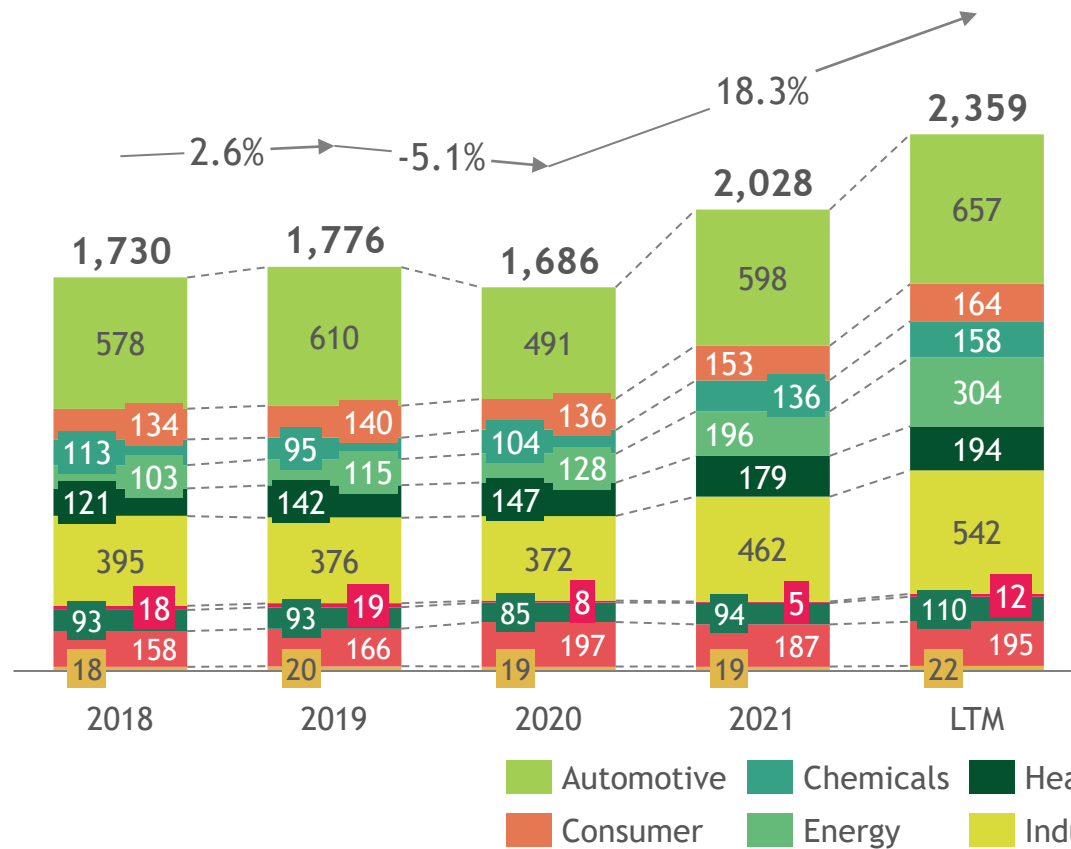
Industry position in the European ranking

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Source: Capital IQ, BCG analysis

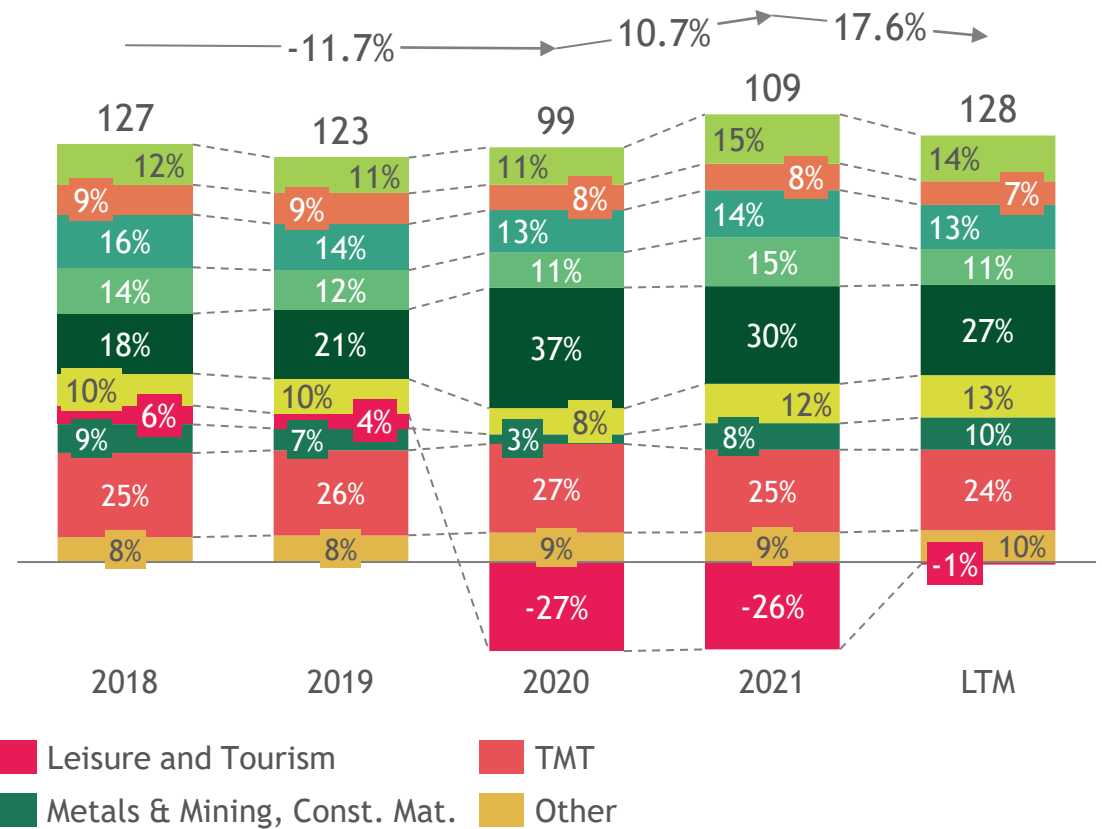


Operational view | Revenues exceed pre-pandemic levels significantly with EBITDA margins mostly recovered

Revenue in G&A in bn EUR, 2018-LTM



EBITDA margin in G&A in %, 2018-LTM

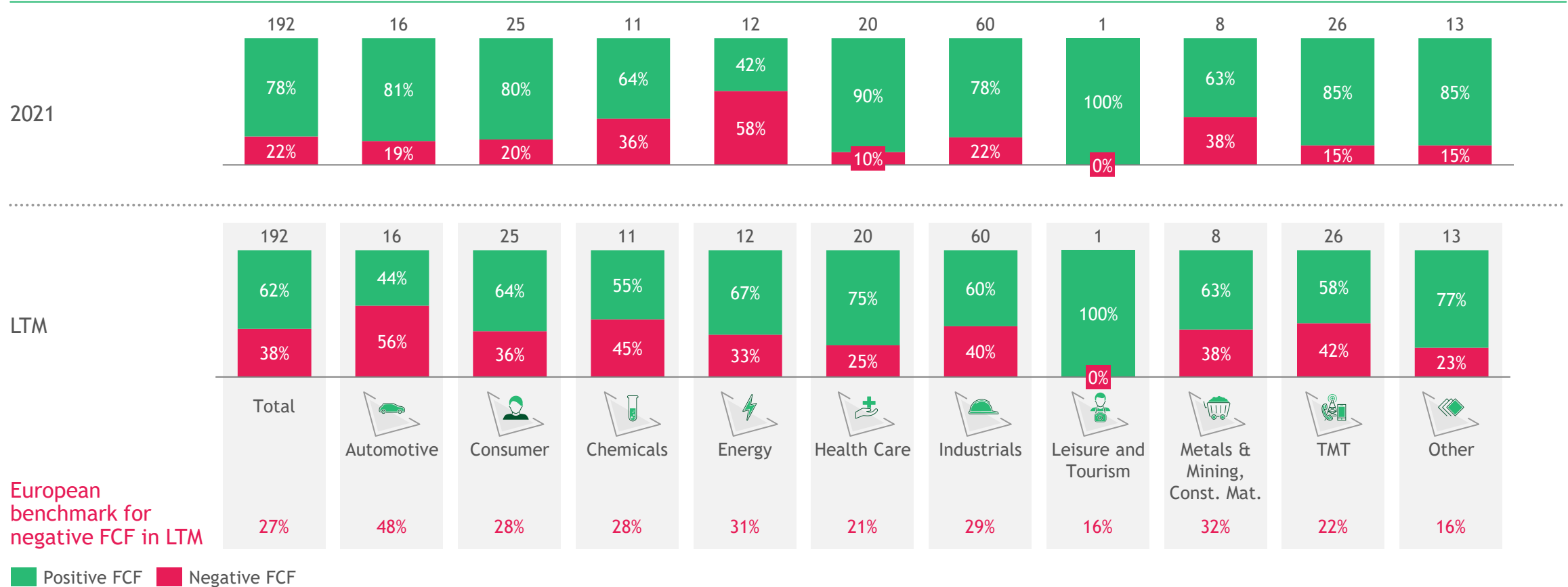


Note: LTM = LTM Q3-2022
Source: Capital IQ, BCG Analysis



Solvency | After a steep rise in 2021, 38% of companies in G&A have negative FCF in LTM, which is significantly higher than the European average of 27%

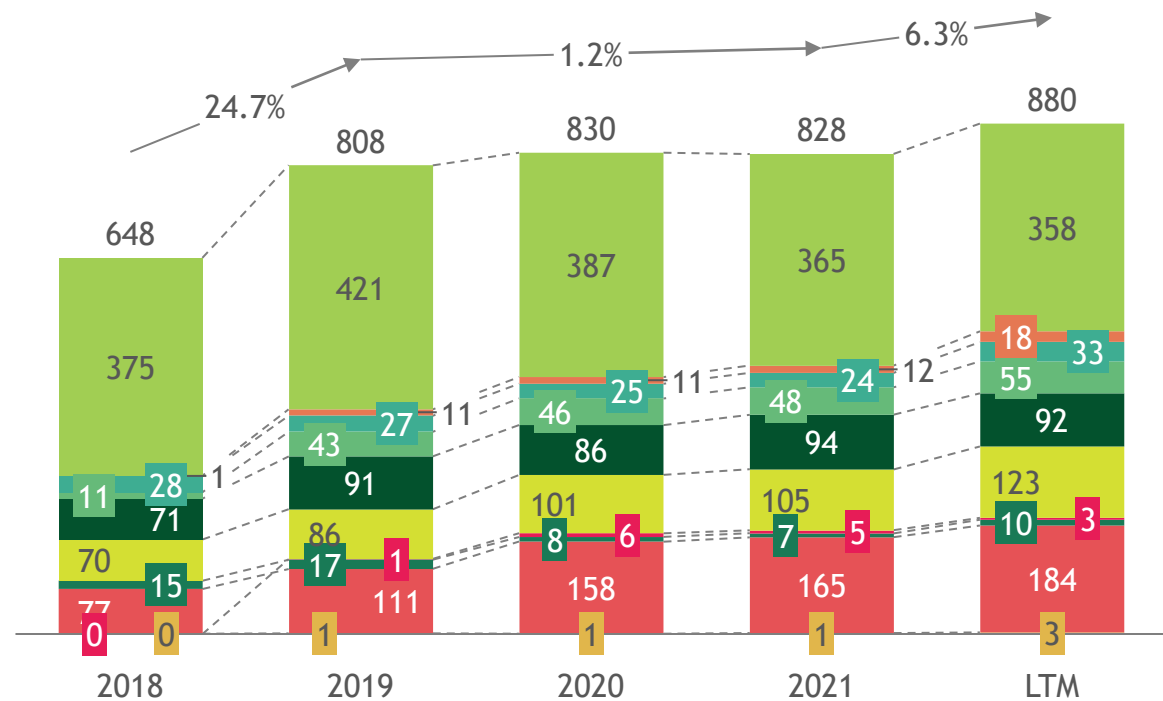
Distribution of companies with negative/positive FCF in 2021 and LTM



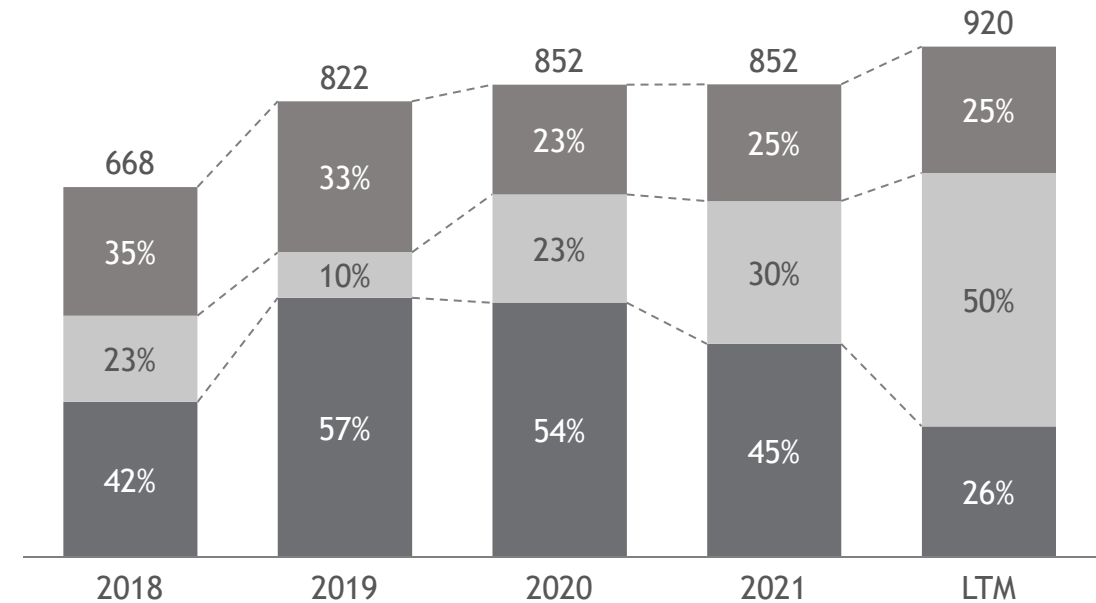


Financial stability | Net debt has increased further in LTM with a notable deterioration of the quality of net debt

Net debt in G&A in billion EUR, 2018-LTM



Net debt by rating¹ in G&A 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.

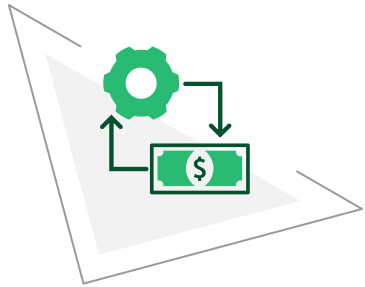
Source: Capital IQ, BCG Analysis



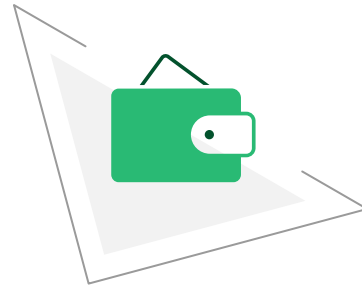
Appendix

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)

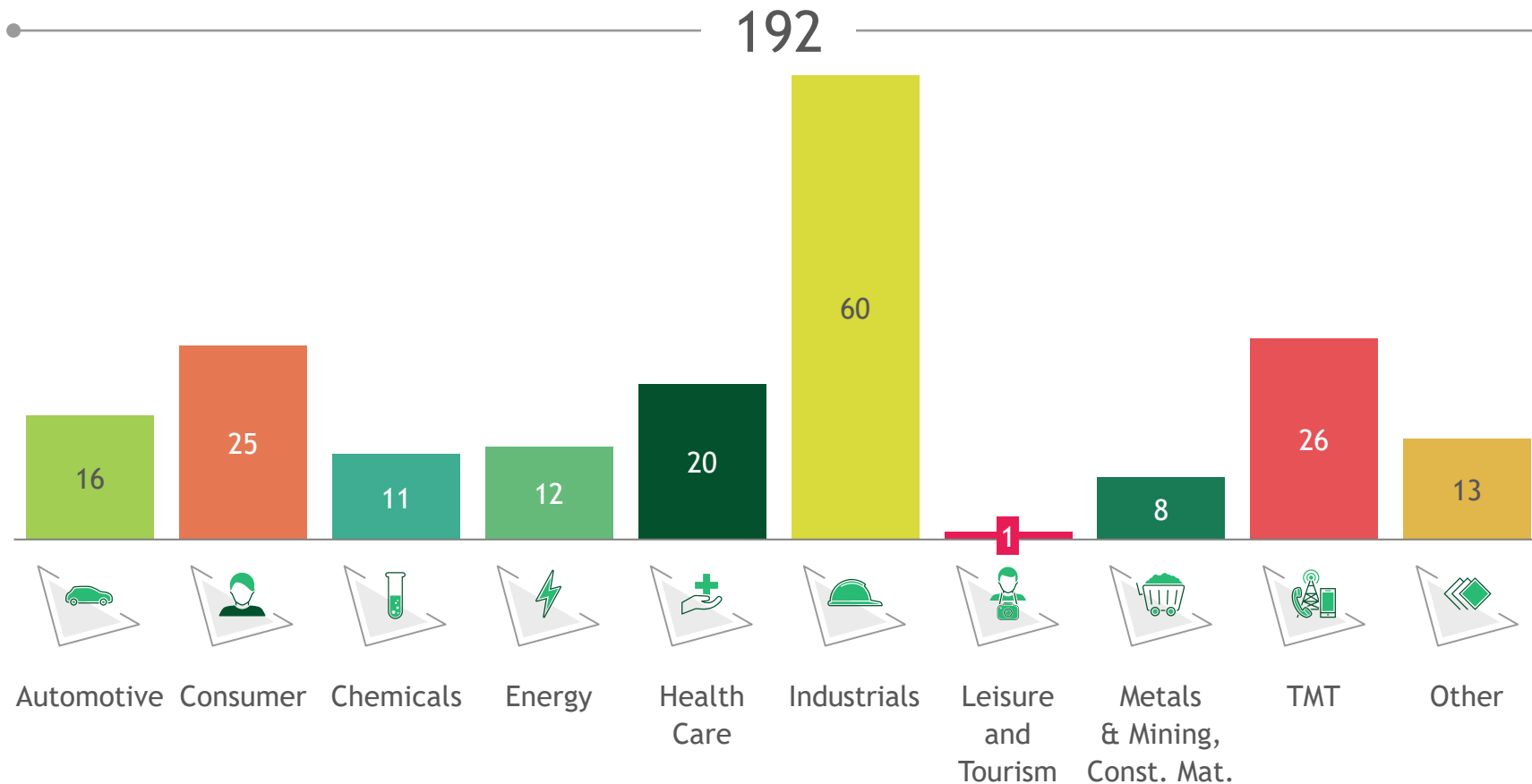
The solvency ranking is based on the **growth sector's overall cash account LTM, the percentage of companies with growth in cash LTM, and the interest coverage ratio**, with the worst overall performance assigned the fewest points (1 point) and the strongest the most points (10)

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



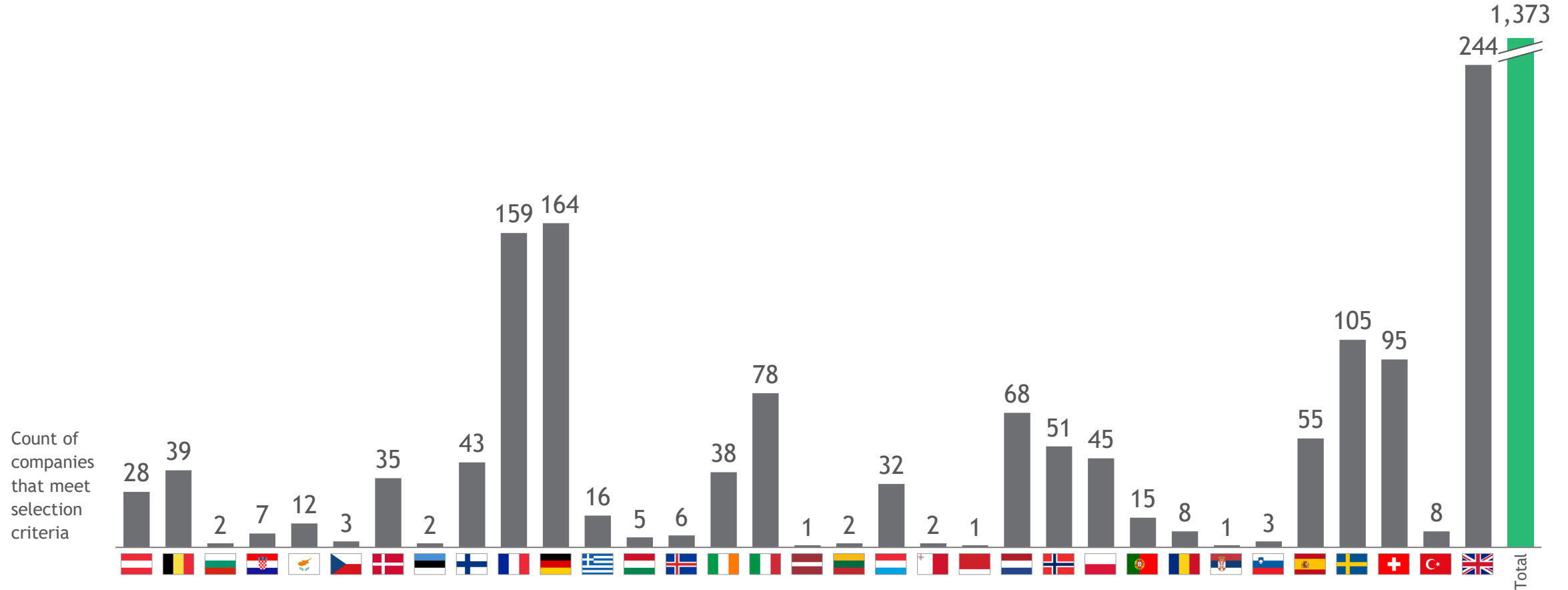
Number of German and Austrian companies within each industry in the underlying database



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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