



BCG Transform Index: UK

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 244 are from the UK, 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

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 UK companies with negative free cashflow has risen steeply in LTM and is 24%, which is in line with the European average of 27%



Financial stability

In 2019, the net debt increased significantly and has remained at a high 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, 60% of the debt is investment grade, which is a higher percentage than the European average of 45%

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 poor financial stability, it shows high profitability and solvency, with producers benefitting from supply constraint and rising prices
- The **Consumer** sector demonstrates strong solvency and financial stability with slight struggles in the profitability dimension due to potential reduction in consumer spending in times of high inflation

Most impacted sectors

- The **Industrials** sector grapples particularly with issues concerning profitability and financial stability, potentially also impacted by leaving the EU
- The **Automotive** sector struggles primarily in financial stability and profitability with significantly lower margins compared with the 2018 baseline due to rising input prices and car sales slowly declining
- The pandemic and current challenges continue to significantly impact the **Leisure and Tourism** industry, which struggles across all dimensions, with its EBITDA margins not fully recovered

Ranking compared with European average

- The **Consumer** sector has been more resilient in the UK due to strong consumer confidence, favorable exchange rates, and established brand names, among other contributing factors
- The **Automotive** industry in the UK has been severely affected by the semiconductor shortage, low automobile demand after the pandemic, and new trade rules, with the EU its primary passenger car export destination

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

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		7		10		27
2		Other Chemicals	7		10		6		23
3		Energy Energy	9		9		3		21
4		Consumer Automotive	5		6		9		20
5		Health Care Others	8		3		8		19

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 21 points is exhibited by both Energy and Other. 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, Automotive and Industrials perform worse than in the European ranking

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

			Profitability	+	Solvency	+	Financial stability	=	SUM
6		Chemicals Industrials	6		3		7		16
7		TMT Health Care	3		5		6		14
8		Industrials Consumer	4		5		4		13
9		Automotive TMT	1		8		2		11
10		Leisure & Tourism Leisure & Tourism	2		1		1		4

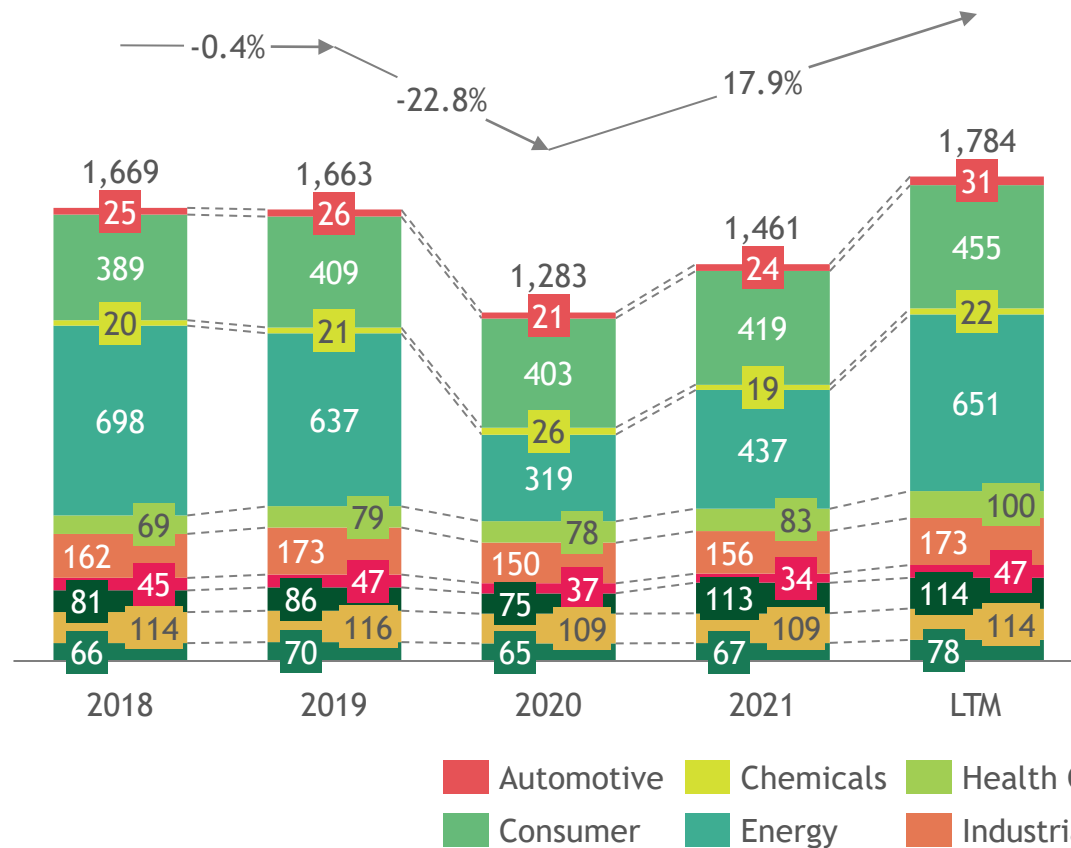
Industry position in the European ranking

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Source: Capital IQ, BCG analysis

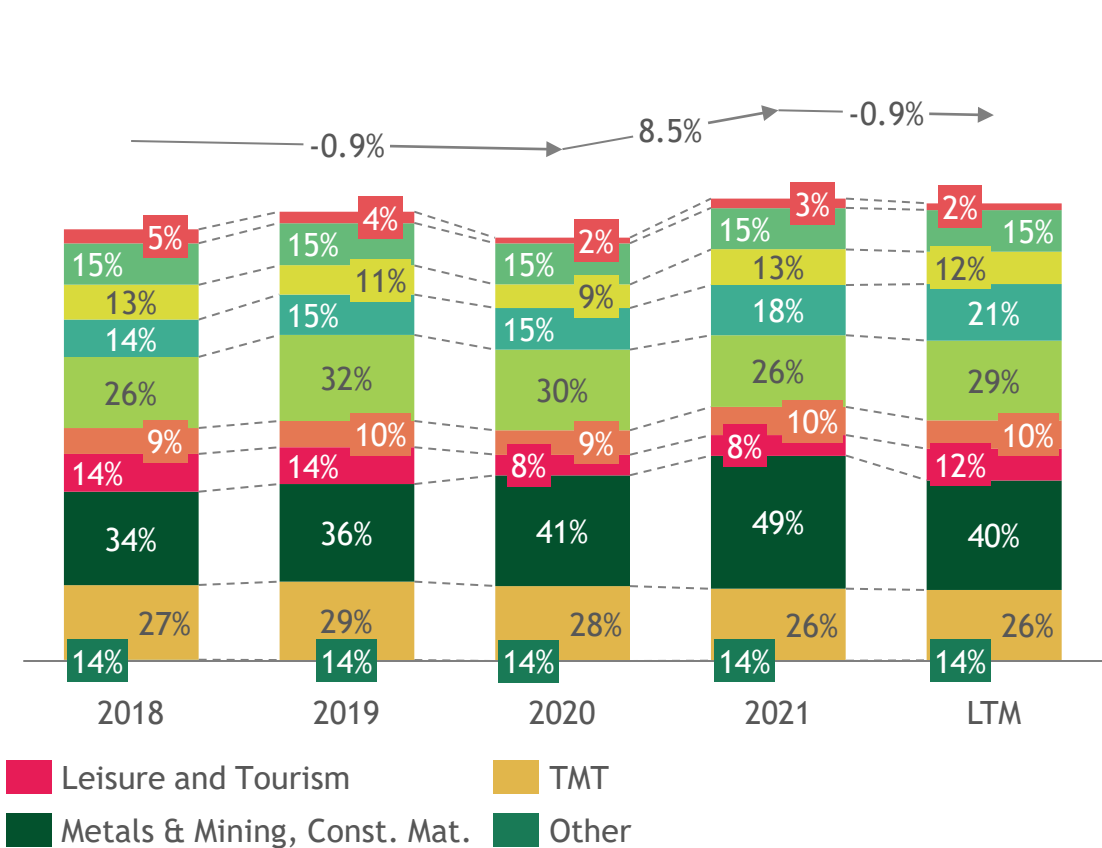


Operational view | While overall revenues and profitability have surpassed pre-pandemic levels, there are still sectors that have not yet fully recovered

Revenue in the UK in bn EUR, 2018-LTM



EBITDA margin in the UK in %, 2018-LTM

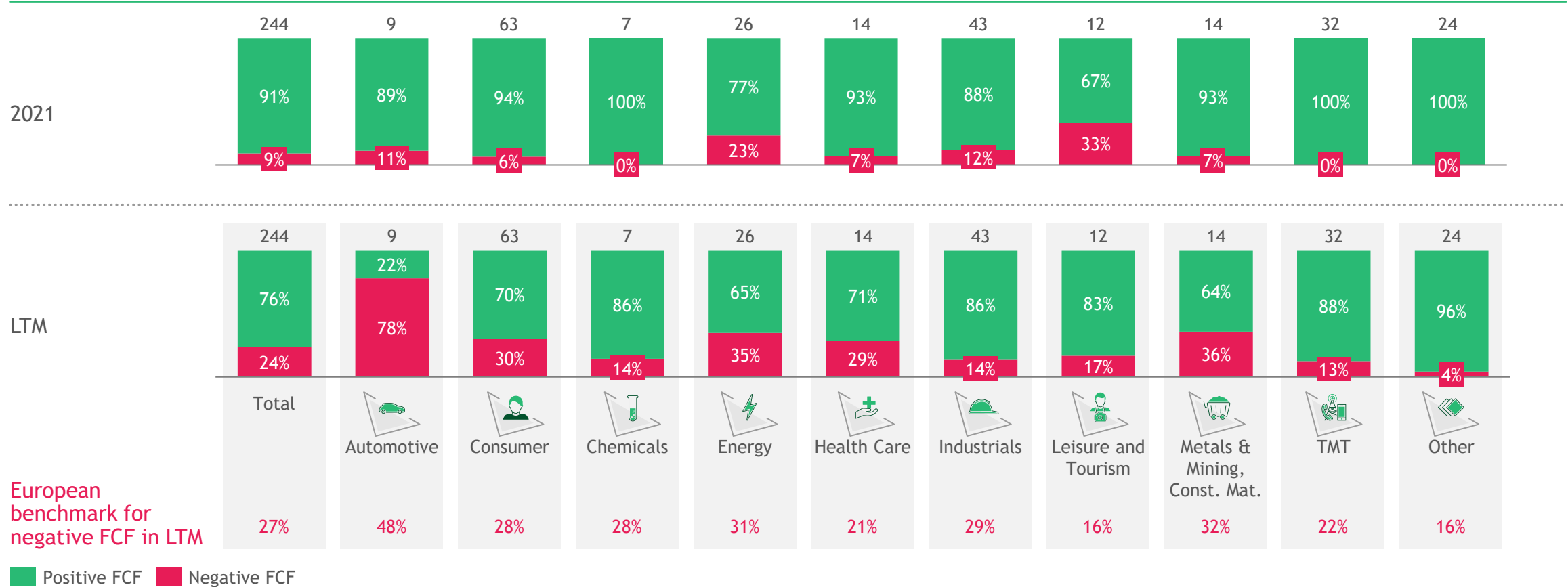


Note: LTM = LTM Q3-2022
Source: Capital IQ, BCG Analysis



Solvency | After a steep rise in LTM, 24% of British companies have negative FCF in LTM, which is slightly below the European average of 27%

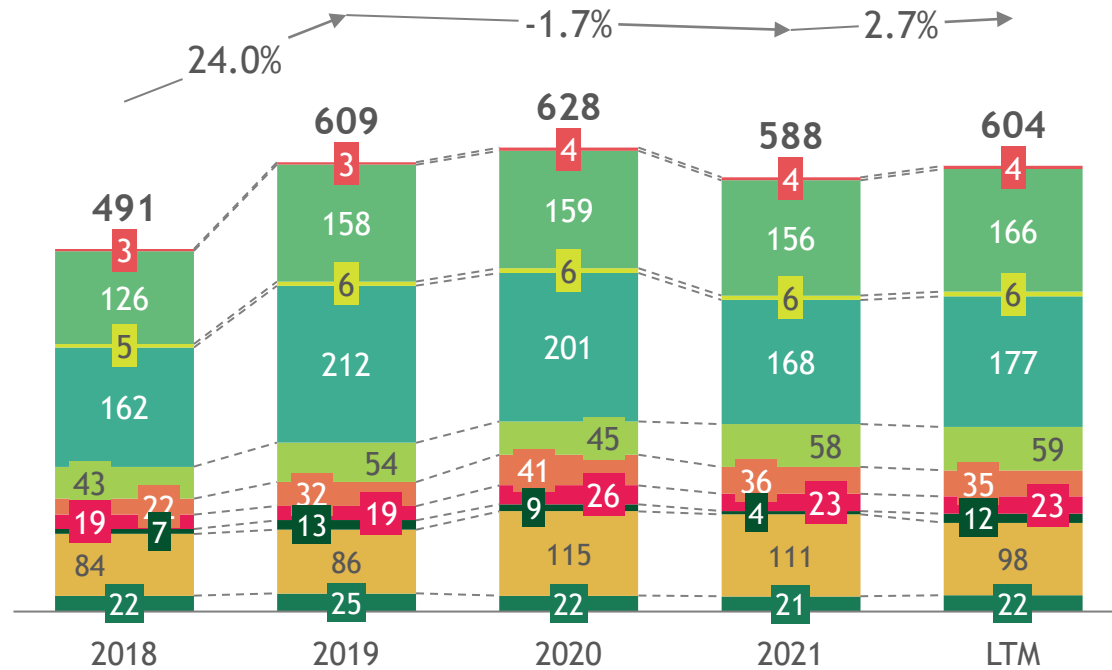
Distribution of companies with negative/positive FCF in 2021 and LTM



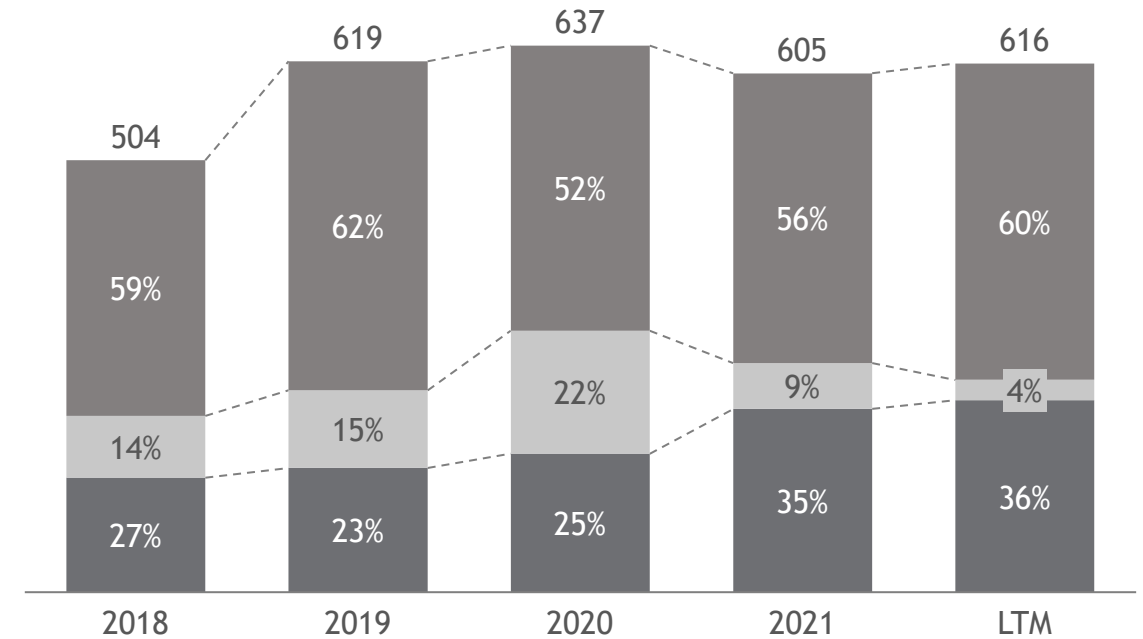


Financial stability | Net debt has been slightly rising in LTM with an increased share of sub-performing debt since 2021

Net debt in the UK in billion EUR, 2018-LTM



Net debt by rating¹ in the UK 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

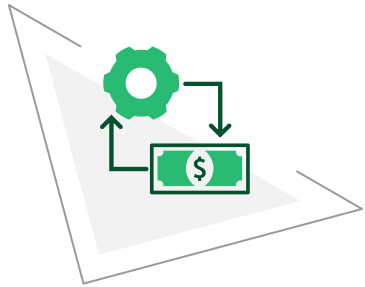
1. The ratings are based on the Net Debt/EBITDA leverage measure. Debt with a Net Debt/EBITDA ratio below 3.5 is considered investment grade, while debt with a ratio between 3.5 and 4.5 is classified as mid-grade. If the ratio exceeds 4.5, it is considered sub-performing debt. If EBITDA is negative, net debt is automatically classified as sub-performing.
Source: Capital IQ, BCG Analysis



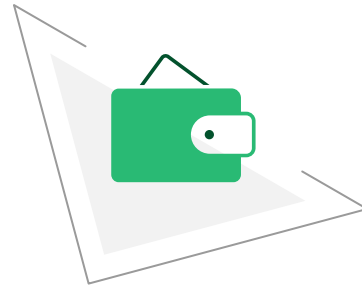
Appendix

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)

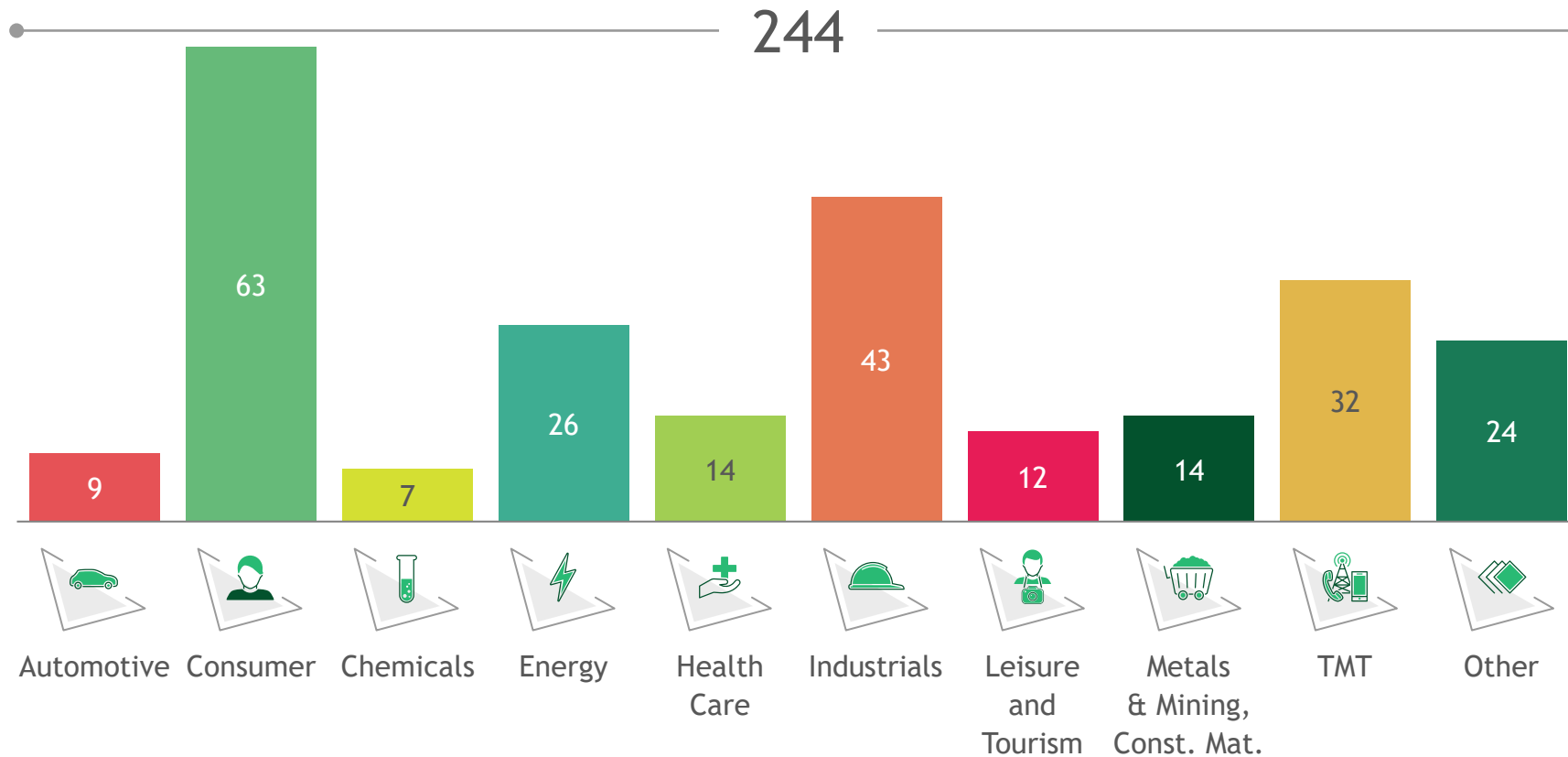
The solvency ranking is based on the **growth sector's overall cash account LTM, the percentage of companies with growth in cash LTM, and the interest coverage ratio**, with the worst overall performance assigned the fewest points (1 point) and the strongest the most points (10)

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



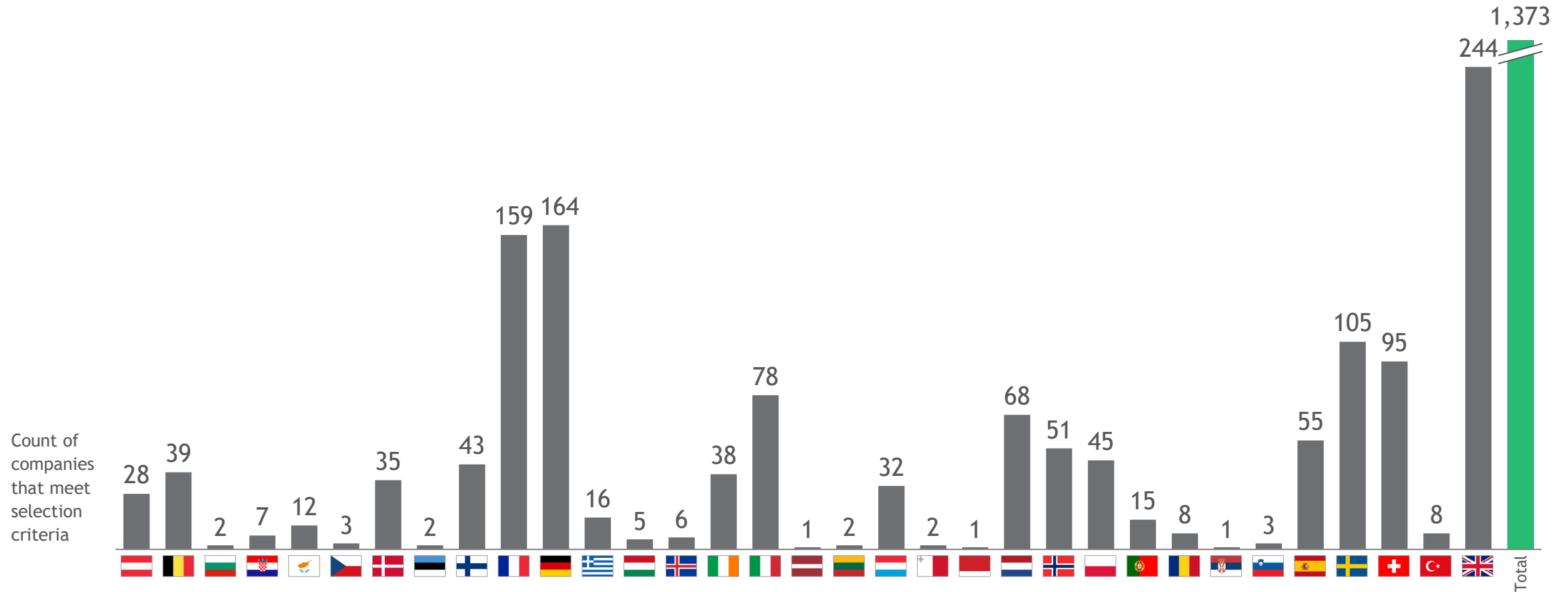
Number of UK companies within each industry in the underlying database



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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