European non-financial listed groups: Analysis of 2020 data

ERICA (European Records of IFRS Consolidated Accounts) WG
European Committee of Central Balance Sheet Data Offices (ECCBSO)

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ERICA Working Group
eccbso
European Committee of Central Balance Sheet Data Offices

EUROPEAN NON-FINANCIAL LISTED GROUPS: ANALYSIS OF 2020 DATA

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IMPORTANT INFORMATION ABOUT THE SOURCE USED (ERICA[1] DATABASE) AND ABOUT THE FIGURES BY COUNTRY

The data used in this study is obtained from publicly available financial statements of European non-financial listed groups, having been treated manually by CBSO statisticians and accounting specialists to fit a standard European format (ERICA format). This manual treatment involves, in some cases, interpretation of the original data, a constraint that readers of this document should bear in mind.

The database does not represent the total population of European non-financial groups. Nevertheless, the coverage of listed European groups attained with ERICA (in the whole dataset of approximately 1,000 groups) is well-attuned to the situation and national composition of the stock markets. The analyses performed in this document, with the proviso expressed in the previous paragraph, offer a view of the position and performance of listed non-financial European groups. However, the analysis includes some commentaries on the performance of listed European groups according to the country where the parent company is based. The largest ERICA groups are multinationals, whereby the following has to be borne in mind: the performance of the groups belonging to any given country does not necessarily reflect the performance of the country itself.

The opinions of the authors of this document do not necessarily reflect those of the national central banks to which they belong or those of the ECCBSO.

All the graphs and tables presented in the document are from the same source (ECCBSO-ERICA database).

[1] ERICA (European Records of IFRS Consolidated Accounts) is a database of the European Committee of Central Balance Sheet Data Offices.

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I. EUROPEAN NON-FINANCIAL LISTED GROUPS: INTRODUCTION AND MAIN FINDINGS FROM 2020 DATA

This document presents the results of the analysis carried out by members of the ECCBSO's ERICA WG of the information available in the ERICA 2020 database (close to 1,000 listed non-financial groups, with a total of approximately € 8,200 billion in assets and € 4,000 billion in revenue), with the most relevant facts for the year 2020 regarding the profitability and financial structure of European listed non-financial groups, as well as the financial debt structure and cost of debt. For accounting periods 2017 to 2020, the ERICA database also includes data from Turkish non-financial listed groups. As a result, analysis that is limited to the 2019-2020 period does take into account the Turkish data[2]. For five-year period time series, however, the information available is not sufficient and Turkish data had to be excluded.

This report uses three different samples[3]:

- A *static* sample: This sample includes all groups for which data is collected in ERICA for the year 2020. The static sample consists of 946 groups;
- A *sliding* sample: This sample is obtained by selecting all groups for which data is collected in ERICA for both 2019 and 2020. The sliding sample encompasses 885 groups. Groups that underwent a change in sector or size are excluded from the sliding sample;
- A *fixed* sample: This sample only takes into account those groups for which data is collected in ERICA for each year over the 2016-2020 period. The fixed sample captures 669 groups.

Each sample is compiled by country and by sector, depending on the type of analysis. In samples by country, all country doubles (i.e. subsidiary groups of a higher-level group allocated to the same country) have been removed. In samples by sector, all sector doubles (i.e. subsidiary groups of a higher-level group allocated to the same sector) have been removed. Moreover, the static and sliding samples, which are made up of size classes, are adjusted by eliminating global doubles (i.e. subsidiary groups of a higher-level group that is also included in the sample)[4]. For all conclusions derived from the total data, the same strictures (i.e. elimination of global doubles) apply. Therefore, the total data generally differ – in aggregates or numbers – from the sum of their components (i.e. countries, sectors or sizes).

Considering the major impact of some large groups, weighted average figures by country or sector are often biased. For that reason, the analysis in this document mainly focuses on the median values of ratios. These median values are regarded as more accurately representing the behaviour of the majority of the population, unaffected by the weight of the largest groups. Nevertheless, in-depth analysis reveals that median figures may also be strongly influenced by a single group or just a few groups. In these cases, it is not the largest, but the median groups that determine changes in the median ratios.

The main findings of the study using 2020 data are:

1 Pandemic crushed operating results and profitability in 2020.

Aggregated figures for EBIT, profits and revenues declined dramatically across all countries, sectors and size classes in 2020 due to the pandemic situation. In total, the aggregated EBIT and profits before tax dropped by more than 50 % and 60 % respectively. Revenues shrank by 12 % at the same time.

[2] Except for the cost of debt analysis, due to the unavailability of interest expenses data.
[3] Figures refer to the global samples.
[4] All country doubles are by definition global doubles as well.

Due to the considerable travel restrictions, the biggest decline in profits occurred in the services sector, which includes the hard-hit aviation related groups as well as severely impacted retail groups. The energy sector was also significantly affected since the abrupt slowdown of the economy led to considerably lower energy consumption and a temporary drop in the global oil price. Groups in the industry and construction sectors also suffered a substantial but relatively less severe decline, thus seeming more resilient to the pandemic overall. However, the effect on the sectors differed between countries due to the sample compilation and structural country specifics. Regarding group size, the median profit figures (largely unaffected by the weight of large groups) reveal that small groups felt the biggest impact whilst medium groups were less affected.

Accordingly, all the profitability measures analysed showed cutbacks, with the EBIT margin significantly lower than in the past four years. The fall in profitability was most pronounced in the return on equity ratio, which almost halved.

2 Pandemic effects result in decline in equity and lower net indebtedness.

Driven by the effects of the pandemic on profitability and revenue, total equity declined sharply in 2020 by over 5 %. This was due mainly to reductions in retained earnings and other reserves. Among the size classes, small groups deviated from the general trend and increased their equity, with growth in share premiums offsetting the fall in retained earnings. With respect to the different sectors, the steep decrease across all sectors was led by the energy sector.

The first application of the new accounting standard for leases (IFRS 16) led to an increase in net indebtedness in 2019. Starting from this higher level, European non-financial listed groups from all size classes were able to reduce their net indebtedness ratio during the first year of the pandemic. The main factor here was a significant increase in cash and cash equivalents induced by the pandemic. The net indebtedness ratio fell in all observed countries except for Greece and, to a lesser extent, France. The biggest drop was observed in Belgian groups. Analysis per branch of activity shows that transportation and storage groups reported the biggest rise in median net indebtedness in 2020. Chemical groups, food manufacturers and real estate groups achieved the best reduction in net indebtedness.

Analysis of the overall debt structure of European non-financial groups reveals that many of the most capital-intensive branches of activity are heavily reliant on long-term debt. In 2020, the relative weight of long-term borrowings increased in most branches of activity. The relative weight of trade payables, on the other hand, was reduced in most branches of activity and remained stable in the remaining branches.

3 Continuing downward trend in the cost of financial debt despite higher gross indebtedness.

The financial debt structure of European non-financial listed groups remained fairly stable in 2020. Loans from financial institutions, usually referred to as bank loans, were the most popular form of debt capital in 2020 for European non-financial listed groups overall, despite the mixed picture presented by the country level data. Borrowings from financial institutions were also the most common way of financing across all size classes and sectors. Even though groups make more frequent use of debt capital from financial institutions and leases, financial market funding via bonds remained the main source of financial debt in terms of amounts raised. Large groups prefer to obtain the major slice of their funding from bond issuance and, due to their size, they dictate the overall outcome. The majority of the branches of activity replicated the country pattern of obtaining more than half of their debt capital from bond issuance.

Across all countries, the cost of debt of the European non-financial listed groups declined in median terms, despite the rise in their indebtedness. The reduction in the cost of debt was also visible for the majority of sectors and size classes, in median terms. The gap between the countries and sectors with the highest and lowest cost of debt diminished in 2020.

II. ERICA DATABASE: COVERAGE AND MAIN FIGURES

The 2020 ERICA database comprises 952[5] groups. In 2020, the COVID-19 outbreak triggered the shutdown of economic activity. The ERICA WG was able to collect all necessary data from almost the same listed groups as in previous years. This general reduction in economic activity did not cause any relevant change in the relative sectoral breakdown indicator compared to previous years.

The coverage of the ERICA database in absolute terms involves a number of listed groups studied for 2019, ranging from 30 real cases in Portugal and 33 in Turkey to 176 in Germany and 301 in France.

CHART 1 LISTED GROUPS BY COUNTRY IN 2020 (absolute number)

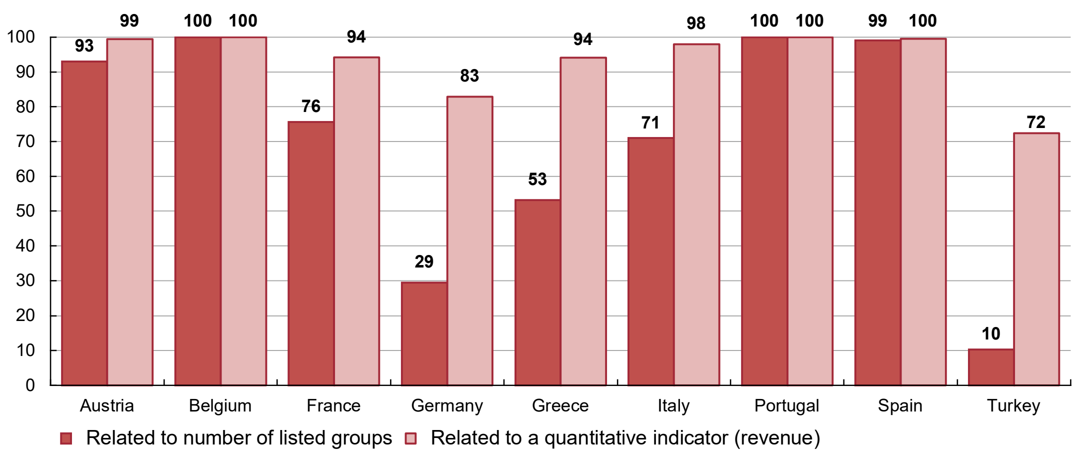
Source: ERICA 2020 static sample and national databases.

The ERICA database's coverage in terms of a quantitative indicator (revenue) in Chart 2 shows that it is highly representative of the total population of listed European non-financial groups: coverage is high for almost all countries, ranging from 72 % in Turkey and 83 % in Germany to 100 % in Belgium, Portugal and Spain.

In relative terms by number of listed groups, comparing the ERICA database with the total population of listed groups the coverage rate varies from 10 % in Turkey to 100 % in Portugal and Belgium.

[5] The identification of doubles in ERICA listed groups leads to a reduction in the coverage, in both the nominator and the denominator, particularly in Italy (8), Germany (8), Belgium (3), Portugal (2) and Spain (1).

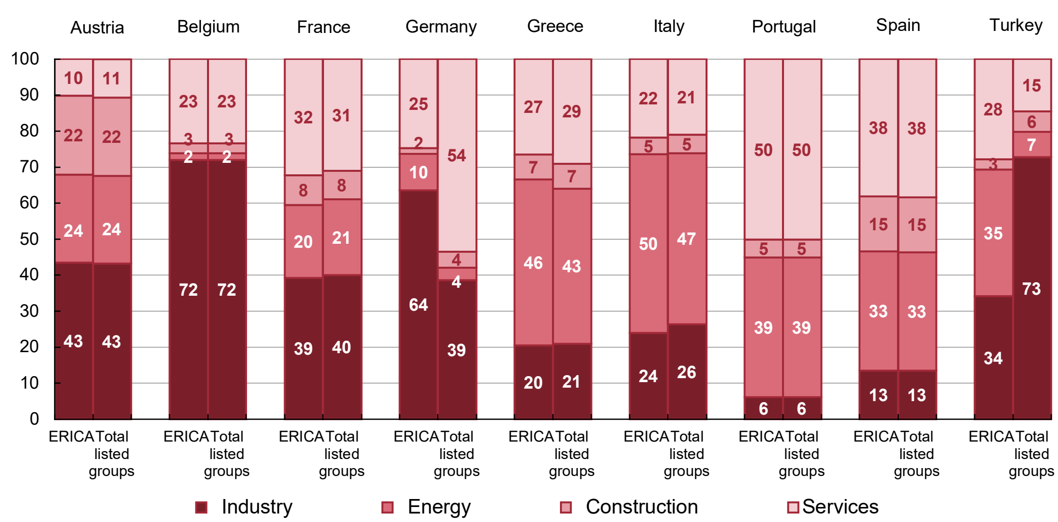
CHART 2 DATABASE COVERAGE IN 2020 (in % and in relation to total of listed groups)



Source: ERICA 2020 static sample and national databases.

The sectoral breakdown in Chart 3 for listed European groups differs greatly from country to country. Both sample and population are mostly similar in every country except in Germany and Turkey, where the industry and energy sectors respectively are over-represented in the sample compared to the total population of non-financial listed groups. In the ERICA sample, industry is especially dominant in Belgium and Germany, while energy has a high weight principally in Italy and Greece. The share of the construction sector is largest in Austria and Spain. Lastly, the service sector is important in almost all the countries, being especially relevant in Portuguese and Spanish ERICA listed groups.

CHART 3 STRUCTURE BY COUNTRY AND SECTOR IN 2020 (in % of revenue)



Source: ERICA 2020 static sample and national databases.

III. PROFITABILITY: PANDEMIC HIT

Profitability, along with the financial structure and cost of debt analysis set out in this document, is based on financial data for 2020, available in the ERICA database for non-financial European groups listed on a European stock exchange. Three different samples are used, as explained in the introduction. Within or between countries and sectors, separate group entities (such as parent companies and subsidiaries) may feature independently. The way in which samples are composed differs, depending on the purpose of the analysis.

TABLE 1 ERICA: OVERVIEW OF AGGREGATE PROFITABILITY VARIABLES IN 2020

In € billion	Number	Total assets	EBIT	EBITDA	P/(L) before tax	Revenue
By country						
Austria	40	166.92	5.09	14.74	4.48	89.67
Belgium	73	328.22	13.15	29.77	5.45	142.22
France	301	3,018.71	73.25	219.96	47.86	1,467.35
Germany	176	2,705.36	43.30	224.41	32.31	1,518.09
Greece	50	62.67	0.71	3.82	-0.09	35.77
Italy	148	968.46	12.51	55.81	5.55	282.51
Portugal	30	102.23	2.97	8.80	2.34	61.34
Spain	102	754.81	10.61	56.97	2.77	338.40
Turkey	33	177.23	9.08	13.91	6.73	89.71
Total	**953**	**8,284.61**	**170.67**	**628.19**	**107.40**	**4,025.07**
By sector						
1. Industry	404	3,424.54	90.36	281.89	74.89	1,825.29
2. Energy	65	1,897.80	29.84	132.32	12.16	780.40
3. Construction	48	350.35	8.31	23.38	6.93	219.33
4. Services	432	2,573.53	42.10	189.90	13.40	1,164.26
Total	**949**	**8,246.22**	**170.61**	**627.49**	**107.38**	**3,989.29**
By size (revenue)						
1. Small groups (<250mn)	379	131.59	1.32	5.80	0.17	35.40
2. Medium (250mn -1.5bn)	278	449.89	13.31	32.09	8.33	184.08
3. Large groups (>1.5bn)	289	7,631.55	153.82	584.02	96.90	3,751.72
Total	**946**	**8,213.03**	**168.45**	**621.92**	**105.40**	**3,971.20**

Source: ERICA 2020 static sample.
Note: The number of firms by country and by sector or by size differs: some double-counted groups belong to different countries but are in the same sector. Main figures for 2020 (filter used to avoid double-counting in each sector, size and country counting), with data in € billion.

Chapter II shows how highly representative the ERICA database is for non-financial listed groups. Table 1 gives a breakdown of the 2020 static sample by country, sector and size. It reveals the high proportion of French and German groups in ERICA (as is the case in the total population): 50 % in terms of the number of groups and between 68 % and 74 % in terms of the other quantitative indicator. Regarding size, of all variables analysed in this chapter (assets, revenue, EBIT, EBITDA, profit/loss) between 91 % and 94 % are reported by the large groups (those with revenue of over € 1.5 billion). If we consider the groups' main activity, the weight of the industrial groups is 42 % in terms of total assets, rising to 70 % for profit/loss before tax. The second-biggest sector of activity for all variables is services. Taken together, the services and industry sectors account for 88 % of the number of groups analysed.

III.1 EBIT AND PROFIT BEFORE TAX: PANDEMIC CAUSES STEEP DECLINE

Aggregated figures for EBIT, profits and revenues dropped dramatically across all countries, sectors and size classes in 2020 due to the pandemic situation. In the total sample, the aggregated EBIT and profits before tax were cut by more than 50 % and 60 % respectively. At the same time, revenues shrank by 12 %.

TABLE 2 RATE OF CHANGE IN 2019-2020

	EBIT	Median EBIT	EBITDA	P/(L) before tax	Median P/(L) before tax	Revenue	Total assets	Equity
By country								
Austria	-41.0%	-32.3%	-15.7%	-47.4%	-56.4%	-12.8%	7.7%	6.4%
Belgium	-37.8%	-20.6%	-12.4%	-67.0%	-30.2%	-6.5%	-7.4%	-9.6%
France	-54.3%	-53.6%	-24.7%	-65.6%	-61.9%	-13.3%	-0.2%	-5.8%
Germany	-57.4%	-48.7%	-9.4%	-66.5%	-48.5%	-8.1%	1.1%	-2.8%
Greece	26.9%	-46.4%	-37.0%	-47.6%	-45.0%	-23.3%	-0.8%	-6.9%
Italy	-58.5%	-64.6%	-25.8%	-79.2%	-59.6%	-18.1%	3.4%	-3.7%
Portugal	-42.9%	-55.0%	-19.2%	-46.4%	-52.8%	-11.0%	-2.5%	-7.6%
Spain	-70.2%	-65.1%	-31.2%	-89.8%	-71.7%	-17.9%	-4.4%	-12.4%
Turkey	-13.0%	-18.4%	-10.6%	-16.4%	-3.3%	-20.6%	29.6%	-5.2%
By sector								
1. Industry	-46.8%	-37.9%	-17.2%	-51.3%	-39.5%	-11.2%	-1.8%	-4.8%
2. Energy	-59.8%	-43.7%	-22.8%	-80.2%	-59.0%	-18.3%	-0.3%	-8.6%
3. Construction	-45.8%	-25.8%	-19.0%	-48.0%	-41.9%	-9.4%	0.2%	-3.5%
4. Services	-65.3%	-72.0%	-21.5%	-91.3%	-76.5%	-10.2%	5.3%	-3.1%
By size (revenue)								
1. Small groups (<250mn)	-56.3%	-61.9%	-24.8%	-73.1%	-67.8%	-7.1%	3.8%	0.4%
2. Medium (250mm-1,5bn)	-47.3%	-27.0%	-28.4%	-58.7%	-47.2%	-9.5%	0.4%	-1.4%
3. Large groups (>1,5bn)	-54.6%	-42.6%	-19.1%	-67.5%	-43.6%	-12.4%	0.5%	-5.6%
Total	**-54.1%**	**-41.0%**	**-19.6%**	**-67.0%**	**-44.3%**	**-12.2%**	**0.5%**	**-5.2%**

Source: ERICA 2020 sliding sample.

The pandemic-induced abrupt slowdown of the economy led to considerably lower energy consumption and a temporary substantial drop in the global oil price, so that the energy sector's revenues recorded the biggest fall, down by 18.3 % in aggregated terms, with huge reductions in EBIT and profits. However, the other sectors also suffered enormous profit cuts, the largest occurring in the services sector which includes the hard-hit airlines and airports. Groups in the industry and construction sectors recorded a smaller decline of around 45 % in aggregated total. In terms of the median EBIT, which is generally unaffected by the weight of large groups, the drop was even more pronounced in the services sector, but smaller in the other sectors, particularly construction. In regard to profits before tax, including the financial result, the construction and industry sectors displayed greater resilience to the pandemic. The gap between the rate of change in the median EBIT and the median profits shows the importance and impact of the financial result, which is driven in particular by the interest expense. This gap was more marked in the energy and construction sectors, revealing that groups in these sectors were confronted with a higher median cost of debt (see also chart 25 in chapter V).

An analysis of the number of loss-making groups (before tax) in the year 2020 compared to 2019 additionally illustrates the pandemic's effect on European groups and confirms the particularly difficult situation of groups in the services sector: in total, the number of loss-making groups increased from 152 to 263 in 2020 (+73 %), with groups in the services sector recording the highest increase at 90 %, and groups in construction the lowest (+18 %).

Regarding group size, all size classes likewise recorded decreases of around 50 % in aggregated terms. In median terms, the EBIT figures reveal that small groups were the most affected whilst medium groups suffered less. In total, the sample of European groups recorded an aggregated reduction of 54.1 % in EBIT and 67 % in P(L).

At country level, the aggregate decline ranged between 13 % and 70 %. Although the Turkish sample groups reported the second largest drop in revenues, aggregated profit figures were hit least, suggesting that the sample is biased towards more profitable groups. Only the Greek sample showed an increase in aggregated EBIT due to a one-off effect of a large electric power group which recovered from a massive loss in the previous year (high impairments of assets associated with the decommissioning of its lignite plants). The median EBIT, unaffected by this factor, was down by 46 %.

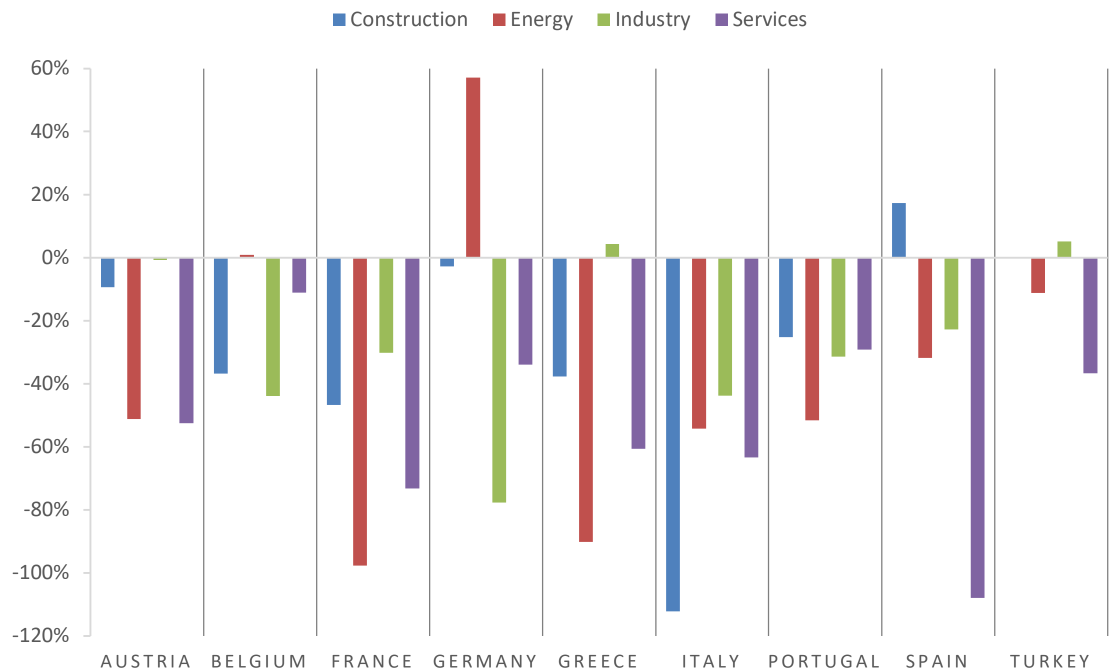
Though in aggregated terms all countries and sectors experienced substantial reductions in EBIT and profits, the pandemic's effect on the sectors in the individual countries varied in intensity, as shown in Chart 4. This is due partly to the countries' sample compilation (see the sectoral breakdown in Chart 3) leading to results which probably do not fully reflect the situation of the entire sector within a country, and partly to structural country specifics.

Industry, the largest sector in the ERICA sample in terms of total assets and EBIT, posted the sharpest drop for the German group sample (-78 %), whilst the overall decline for the ERICA samples stood at 47 %. The industry sector represents a high proportion of the German sample, dominated by the automotive and chemical industries. In 2019, the German industry sector was already suffering from unfavourable world economic conditions, international trade conflicts, the negative effect of Brexit and structural changes in the car industry. In 2020, the pandemic added to the far-reaching impact of the challenging environment for German listed groups. Consequently, large German groups were more affected than small and medium-sized groups.

For the Belgian and Italian group samples, the decrease in the industry sector stood at 44 %. Belgium's industry sample was strongly influenced by the development of one sample-dominating brewing group, which saw a sharp drop in EBIT of 45 % in 2020. However, the Italian industry sample likewise recorded cuts for all group sizes.

The industry sector in France and Portugal recorded the biggest slump in revenue, ranging between 13 % and 14 %, with similar EBIT reductions of around 30 %. The Austrian group sample, dominated by the industry sector, posted only a minor aggregated EBIT drop of 1 %. This was due to the favourable situation for a few large and medium-sized industry groups, such as a leading manufacturer of medical and surgical gloves benefitting from the escalating demand for its products. However, small Austrian groups posted severe cuts of 150 %. The Greek and Turkish industry groups showed an increase in aggregated EBIT of 4 % and 5 % respectively. In Greece, industry group figures were bolstered by medium-sized groups, while in Turkey large groups were the main factor.

CHART 4 EBIT CHANGE BY COUNTRY AND SECTOR 2019-2020 (in %)



Source: ERICA 2020 sliding sample.
Note 1: The percentage of change is calculated as follows: ((EBIT 2020 – EBIT 2019) / EBIT 2019)*100. Hence, for countries which changed from a positive EBIT in 2019 to a negative EBIT in 2020 or vice-versa, the change rate exceeds 100%.
Note 2: the values for Germany/Energy, Greece/Energy and Italy/Construction are divided by 2 for proper scaling.
Note 3: the services sector of the Italian sample and the energy sector of the Greek sample were corrected by one large outlier each (IT: postal group; GR: public power group) which strongly biased the country sample.

In the services sector, the Spanish sample suffered the sharpest reduction. The Spanish services groups, which represented a particularly high proportion in the country sample (around 40 % according to Chart 3), recorded a drastic decline of 108 %. This was due mainly to the importance of large groups, in particular airlines, airport operators and textile retailers. After exclusion of the 3 largest groups in these branches, the decrease in EBIT comes to 45 %. The group samples of France, Italy, Greece and Austria were also seriously affected, showing reductions between 50 % and 70 % in the services sector. All those country samples also included airline/airport groups which were hardest hit by the pandemic and thus had a strong influence on the sector's performance. Other drivers for the EBIT reduction were tourism/catering-related groups, real estate groups and retailers. Analysis of the size classes reveals country specifics: in the Italian sample, small groups were the worst affected (-250 %), and the same applied to Austrian and Greek groups, although the effect was smaller, while in the French sample the large and medium-sized groups played a greater role. The sector samples of Belgium, Germany and Turkey were less affected in the services sector (reductions between 11 % and 37 %).

In the total ERICA sample, the energy sector showed an aggregated EBIT decline of 60 %, and a median decline of 44 %. Generally, the energy sector was clearly dominated by large groups which had the biggest impact on the EBIT figures. Additionally, in overall terms, oil groups suffered more than electricity groups. The strongest decreases were recorded for energy groups in Greece (-180 %; scaled back in the graph for clarity) and France (-98 %): in the Greek sample, the positive effect of one large public power group was excluded as an outlier (see above). Also, in the French energy sample there was a substantial contribution from one large oil group, though the others still saw a substantial 62 % reduction in their EBIT.

The energy sector also represented a large share of the group samples compiled for Italy, Portugal, Spain and Turkey (see Chart 3). The aggregated EBIT reductions of the energy groups in those countries lay between 11 % and 54 %, Italy and Portugal showing the largest falls and the Turkish sample the lowest.

The German energy sample, which was dominated by a few big players, stood in strong contrast to the other ERICA groups in the sector. Due to factors outside the core business of two large groups in 2019, such as the effects of a merger and an increase in other operating expenditures relating to financial derivatives, the EBIT was already at an exceptionally low level in 2019. Against this background, the aggregated EBIT for the year 2020 increased sharply by 114 % (scaled down in the graph) compared to the previous year. Moreover, in contrast to the other ERICA countries, the German sample did not include a dominant oil group but was mainly composed of electricity groups, which were less affected (despite the outlier effects mentioned).

The construction sector, smallest in the ERICA sample, represented a relatively bigger share of the Austrian and Spanish group samples. The Spanish construction sector showed an increase of 17 %, based on the rise in the EBIT of one of Europe's largest construction groups. However, that group's EBIT increase was not due to operational growth but was connected with high losses in 2019, stemming from impairments and provisions related to an exit operation in the Middle East. The other groups, however, recorded an aggregated decrease of 46 %. The Italian groups reported the largest fall in the construction sector (-224 %), although the sector is small and of minor importance in the composition of the country's sample. The strong decrease is largely due to one group, although the other groups also reported declines. For the other countries, the EBIT reductions stood between 3 % for the German sample, which is negligible for the sector compilation of this country, and 47 % for the French sample, which is clearly dominated by large groups.

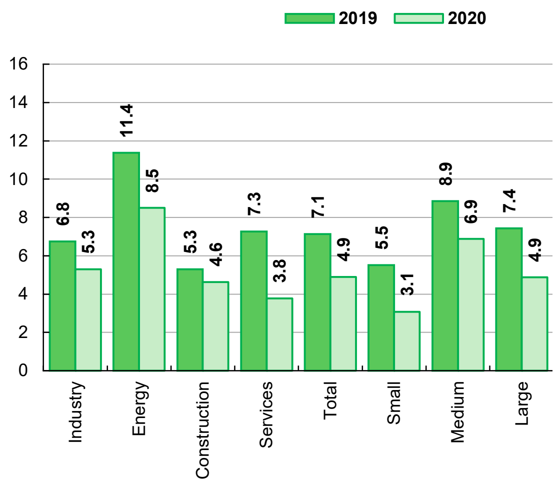
III.2 EBIT MARGIN: CONSTRUCTION AND INDUSTRY PROVED MORE RESILIENT

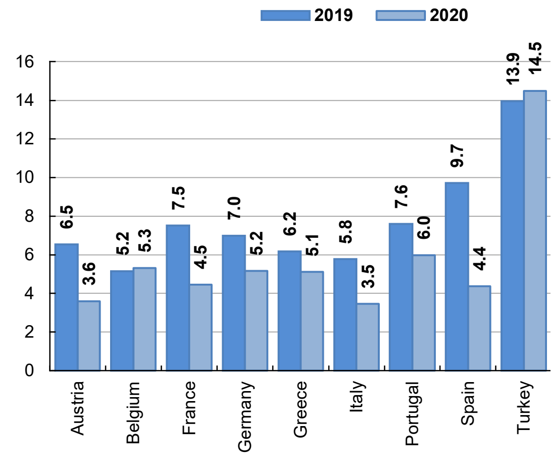
The profitability analysis is based on the EBIT margin, measured as EBIT/revenue. Measured by the median, the total EBIT margin decreased by 2.2 pp in 2020. This translates into a reduction of 31 % in relative terms. Margins declined across all sectors. Margins fell most steeply by 3.5 pp (-47.9 %) in the services sector. Compared to services, declines were less severe in industry (-1.5 pp) and in the construction sector (-0.7 pp) respectively. Associated with the highest ratio of 8.5 % in 2020, the EBIT margin decreased by 2.9 pp in the energy sector.

A size comparison reveals that small groups were hardest hit, reporting a decline of 2.4 pp (-43.6 %), followed by large groups with -2.5 pp (-33.3 %). Medium-sized groups posted a reduction of 2.0 pp from 2019 to 2020. Looking at the weighted mean does not change the conclusions (see Annex B).

Comparing median EBIT margins by country shows that, except for Belgium (+0.1 pp) and Turkey (+0.6 pp), all countries reported a decline of at least 1.1 pp. Turkish groups once again posted the highest ratio in a country comparison, possibly influenced by the sample selection itself. The coverage of the Turkish sample is lower than for the other countries (see Charts 1 and 2) and the selection assumes a bias in favour of the most profitable groups. Groups in Spain (-5.3 pp), Austria (-2.9 pp) and France (-3.0 pp) posted the strongest reduction, in both absolute and relative terms.

CHART 5 MEDIAN EBIT MARGIN – EBIT / REVENUE 2019-2020 (in %)

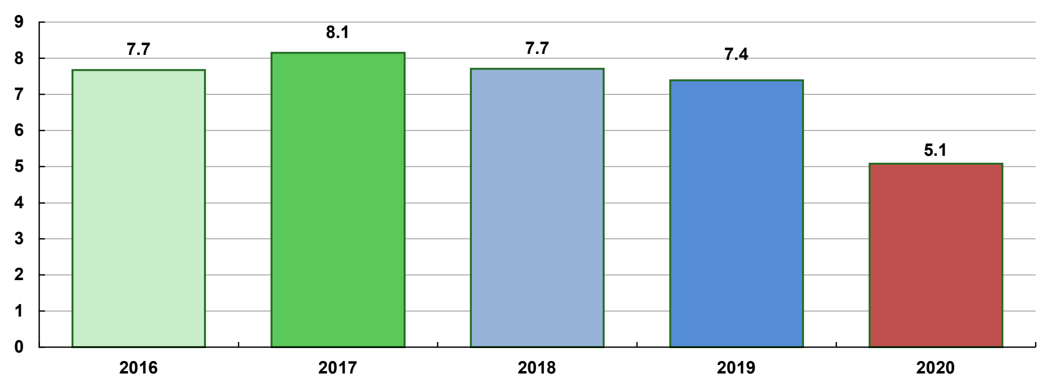




Source: ERICA 2020 sliding sample.

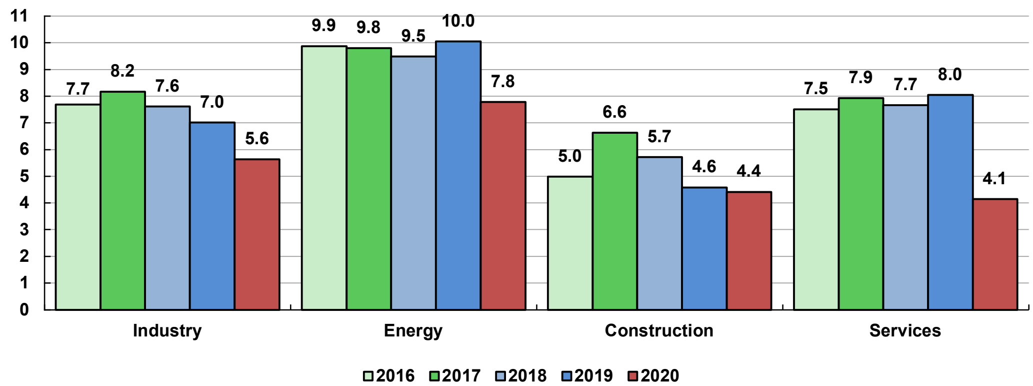
On a time-scale covering the last five years for a (smaller) fixed sample of groups, the median margin shrank by 2.3 pp in 2020 – after moderate declines in 2018 and 2019 (see Chart 6). While the reduction was driven by the decline in EBIT in industry and construction in 2018 and 2019, these sectors were hit less hard in 2020, when margins dropped substantially in the energy sector, and even more sharply in the services sector (see Chart 7).

CHART 6 MEDIAN EBIT MARGIN – EBIT / REVENUE 2016-2020 (in %)



Source: ERICA 2020 fixed sample.

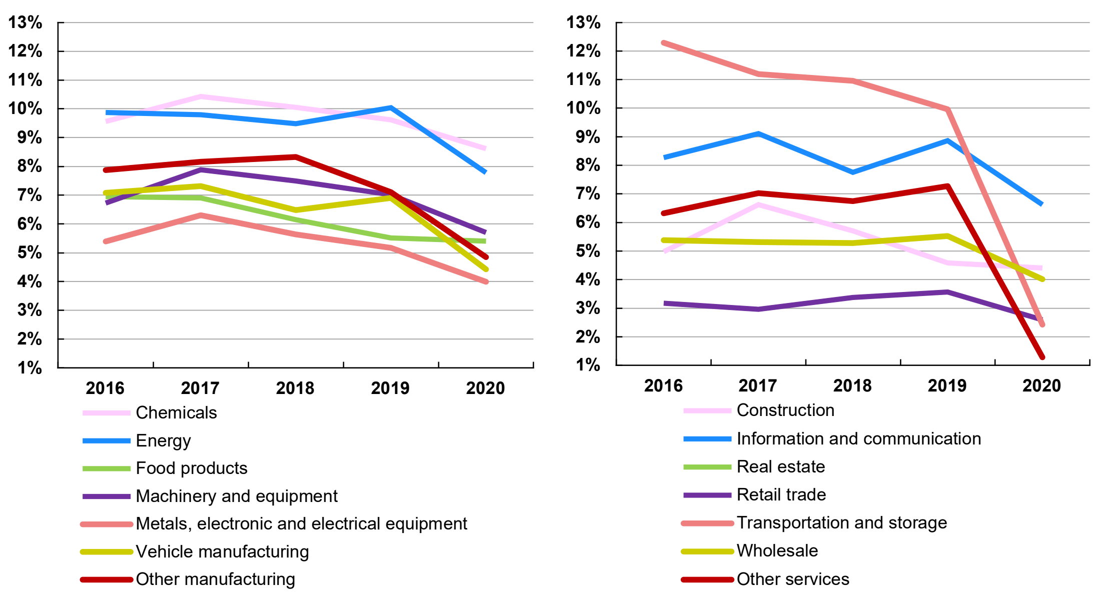
CHART 7 MEDIAN EBIT MARGIN BY SECTOR 2016-2020 (in %)



Source: ERICA 2020 fixed sample.

Analysis of the sectors according to branches of activity shows a mixed picture. Within the industry sector, most subsectors have suffered a decline in their EBIT margin since 2017. In 2020, decreases were generally stronger, except for the food sector (-0.1 pp). The subsectors energy (-2.3 pp), vehicle manufacturing (-2.5 p) and other manufacturing (-2.3 pp) recorded the largest margin reductions. In the services sector, the subsectors construction – and especially transportation and storage – had already reported a downward trend before 2020. In 2020, all subsectors recorded a decrease. Construction posted the lowest reduction in 2020 at -0.2 pp, whereas transportation and storage reported a sharp drop of 7.5 pp, followed by other services with -6.0 pp. The real estate sector, which is not shown in Chart 8 due to scaling, recorded an all-time high in 2019 (110.1 %) and shrank to an all-time low in 2020 (34.1 %); this was clearly also related to negative changes in the fair value of investment property.

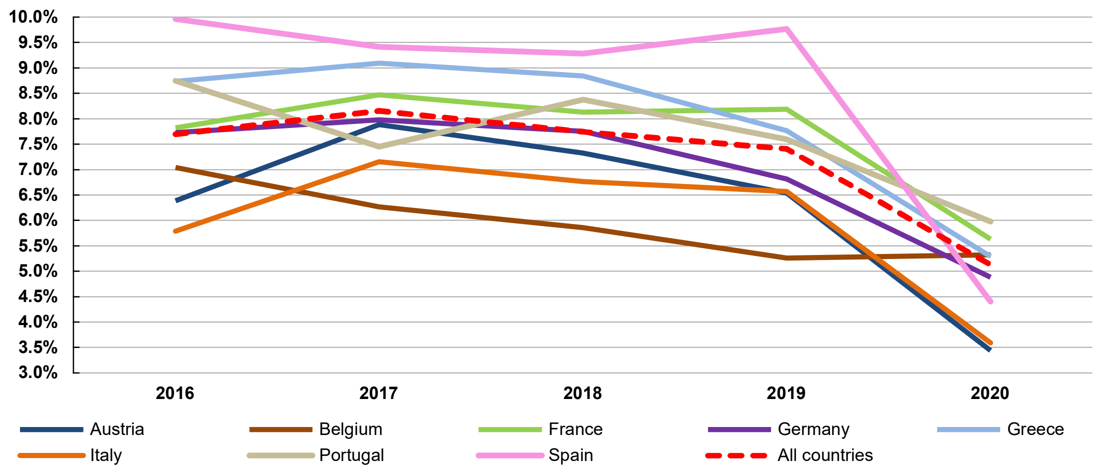
CHART 8 MEDIAN EBIT MARGIN BY BRANCH OF ACTIVITY 2016-2020



Source: ERICA 2020 fixed samples.

The time series at country level reveals that most countries posted their maximum ratios in 2017 and experienced moderate declines in 2018 and 2019, before a drop in 2020. The sample of Belgian groups reported the lowest margin from 2017 to 2019, but no decline in 2020. The decrease was most pronounced for the Spanish groups, at -5.4 pp (see Chart 9). Germany and Portugal recorded the lowest reductions of 1.9 and 1.6 pp respectively.

CHART 9 MEDIAN EBIT MARGIN BY COUNTRY 2016-2020

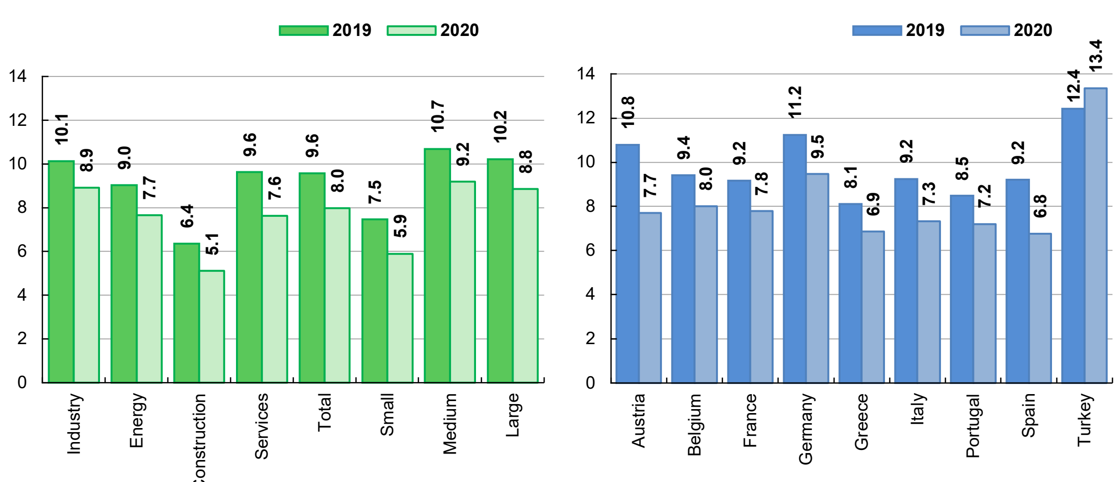


Source: ERICA 2020 fixed sample.

III.3 EBITDA RATIO: SHRINKING RETURNS ACROSS SECTORS AND COUNTRIES

EBITDA is an approximate measure of a company's operating cash flow, calculated by looking at earnings before interest, taxes, depreciation and amortisation. The aggregate EBITDA of listed European groups showed a sizeable 19.6 % decrease in 2020.

CHART 10 MEDIAN EBITDA TO ASSETS RATIO 2019-2020 (in %)



Source: ERICA 2020 sliding sample.

Chart 10 illustrates the change in the ratio of EBITDA to assets, which closely mirrors the change in the EBIT margin. The median EBITDA-to-assets ratio declined from 9.6 % in 2019 to 8.0 % in 2020. The services sector posted the strongest decrease at 2 pp. Differentiating groups by size reveals that small groups (-1.6 pp) were hit harder than medium-sized (-1.5 pp) and large groups (-1.4 pp), in both relative and absolute terms.

Except for Turkey, all countries posted a decline in the median EBITDA-to-assets ratio. Turkish sample groups, which already had the highest ratio in 2019, reported an increase to 13.4 % (+1.0 pp). Austrian groups experienced the strongest decrease at 3.1 pp, followed by Spanish groups (-2.4 pp). Portugal (-1.3 pp) and Greece (-1.2 pp) were less affected.

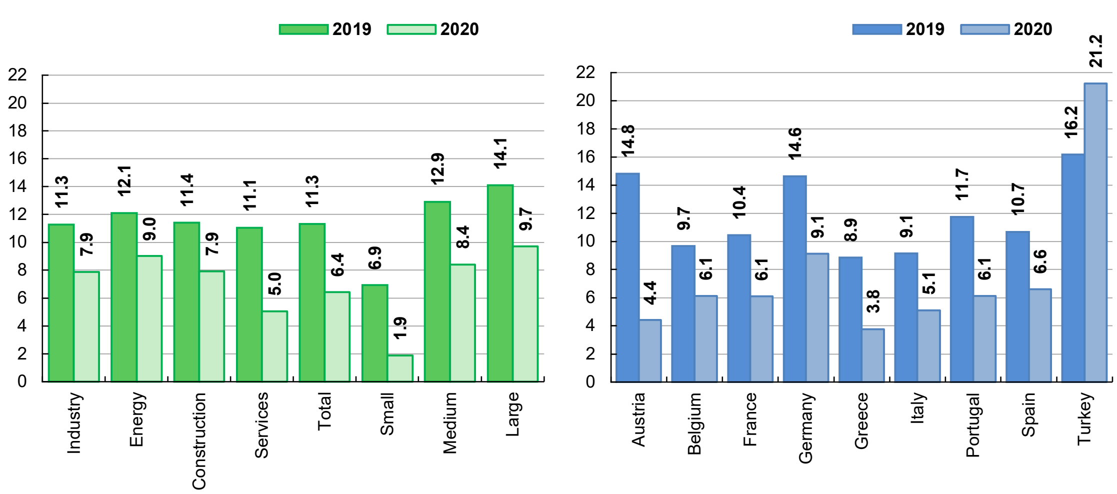
III.4 ROE: SERVICES AND SMALL GROUPS HIT HARDEST

Looking at pre-tax profit in relation to equity, the median return-on-equity ratio posted by European listed groups in 2020 plunged by 4.9 pp to 6.4 %. While returns were roughly equally high across sectors in 2019, profitability fell by 6.1 pp in the services sector in 2020 reaching a ROE of 5 %. The other sectors posted declines of 25-30%.

Recording a reduction from 6.9 % to 1.9 %, small groups experienced sharper declines compared to medium-sized and large groups. Medium-sized (8.4 %) and large groups (9.7 %) posted a decline in the median ROE of 3.5 and 3.4 pp respectively.

Except for the Turkish sample, the country breakdown reveals a significant drop for all country samples in median terms. Austria reported a particularly strong fall of 9.9 pp, reducing the ROE to 4.4 % - the second lowest ROE in 2020. Greece recorded the lowest ROE in 2019 (8.9 %) and 2020 (3.8 %). Turkish groups recorded an increase of 5 pp and posted the highest returns in 2020 (21.2 %), followed by German groups (9.1 %, -5.5 pp).

CHART 11 MEDIAN RETURN ON EQUITY: PROFIT (LOSS) BEFORE TAX / EQUITY 2019-2020 (in %)



Source: ERICA 2020 sliding sample.

IV. FINANCIAL POSITION SHOWS MIXED RESULTS, DUE TO PANDEMIC EFFECTS

The ERICA dataset provides information on listed corporate groups in continental Europe. For the year 2020, the database covers almost 1,000 groups, thus providing a highly relevant assessment of the non-financial sector in continental Europe. Based on data for non-financial enterprise groups with assets worth approximately € 8.2 billion, this chapter provides an analysis of the key financial structure items. As the 289 largest groups account for 93 % of total assets in 2020, they dominate the aggregate figures. Therefore, median numbers are reported in the chapters, but weighted averages are also shown in Annex C.

TABLE 3 OVERVIEW OF AGGREGATE FINANCIAL STRUCTURE POSITIONS IN 2020

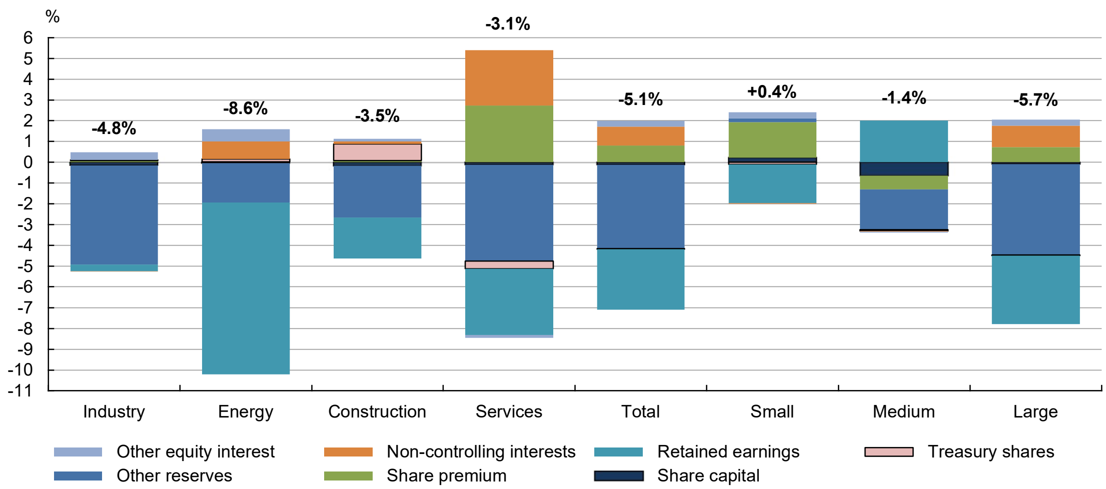
In € billion	Number	Total assets	Financial debt	Cash & cash equivalents	Equity
By country					
Austria	40	166.92	44.43	16.64	67.49
Belgium	73	328.22	126.82	28.42	118.14
France	301	3,018.71	975.68	345.19	978.58
Germany	176	2,705.36	1,014.86	201.65	778.38
Greece	50	62.67	23.56	9.64	18.70
Italy	148	968.46	373.14	69.24	216.16
Portugal	30	102.23	43.02	8.86	28.29
Spain	102	754.81	305.60	77.43	218.32
Turkey	33	177.23	61.52	25.41	50.70
Total	**953**	**8,284.61**	**2,968.62**	**782.49**	**2,474.76**
By sector					
1. Industry	404	3,424.54	1,212.34	380.73	1,154.51
2. Energy	65	1,897.80	581.48	127.76	519.48
3. Construction	48	350.35	117.37	51.27	85.24
4. Services	432	2,573.53	1,053.69	216.58	712.56
Total	**949**	**8,246.22**	**2,964.89**	**776.33**	**2,471.79**
By size (revenue)					
1. Small groups (<250mln)	379	131.59	47.91	16.24	62.61
2. Medium-sized (250mln-1,5bn)	278	449.89	173.82	53.38	180.88
3. Large groups (>1,5bn)	289	7,631.55	2.730.66	705.37	2.214.77
Total	**946**	**8,213.03**	**2,952.39**	**774.99**	**2,458.26**

Source: ERICA 2020 static sample.
Note: The number of firms by country and by sector or by size differs: some double-counted groups are in different countries but belong to the same sector. Main figures for 2020 (filter used to avoid double-counting for each sector, size and country), with data in € billion.

IV.1 DECREASE IN EQUITY

Chart 12 gives an overview of changes in equity in 2020. For the various sectors and size classes, the contributions of seven classes of equity are presented.

CHART 12 CONTRIBUTIONS TO EQUITY GROWTH IN TOTAL, BY SECTOR AND BY SIZE IN 2020



Source: ERICA 2020 sliding sample.

In the context of the economic downturn induced by the pandemic, companies faced reduced revenues and increased impairment losses. Consequently, equity decreased by 5.1 % in 2020. This was chiefly driven by reductions in other reserves and retained earnings, while share premiums and non-controlling interests grew year-on-year. The main contribution to the latter effect stems from a large German group in the services sector accounting for one third of the growth of share premiums and almost all of the change in non-controlling interests.

The various size classes exhibit a mixed picture in regard to equity. Large companies show a sharp decline of 5.7 % in equity, while medium-sized companies increased retained earnings and thus mitigated the overall drop in equity to 1.4 %. Three companies in the services sector from Germany, France and Spain were primarily responsible for the rise in increased earnings among the medium-sized companies. Small companies' equity grew slightly by 0.4 % in 2020, with newly generated share capital and share premiums offsetting the fall in retained earnings.

Retained earnings and other reserves decreased in all sectors. Two large French and Italian groups accounted for the considerable fall in retained earnings in the energy sector, leading to an overall 8.6 % reduction in the energy sector's equity. The change in other reserves was the main factor behind the 4.8 % contraction in the industry sector's equity. The services sector shows the smallest decline in equity (3.1 %), owing to the above-mentioned boost to share premiums and non-controlling interests stemming from a large German group. The noticeable decrease in treasury shares in the construction sector caused by a large French group cushioned the 3.5 % reduction in the sector's total equity[6].

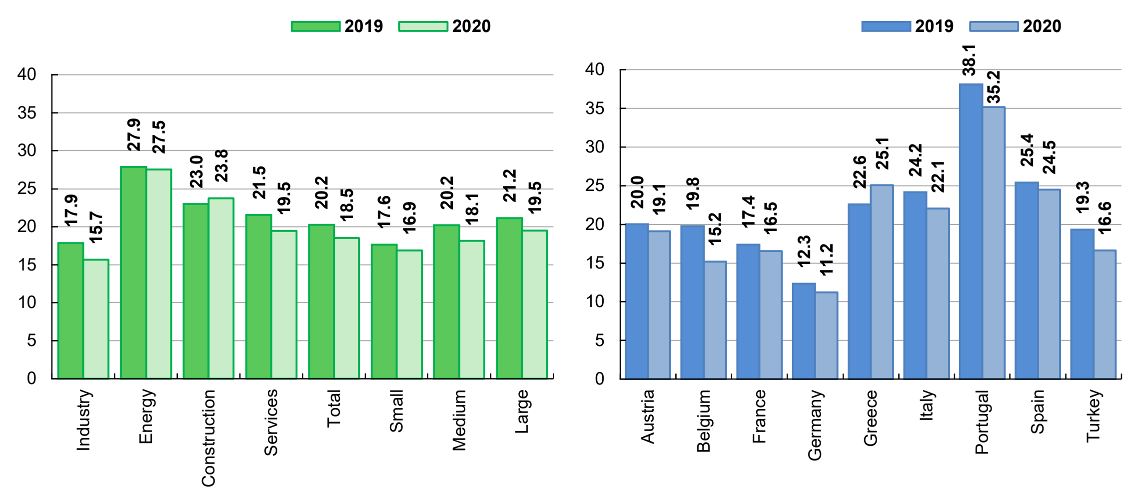
[6] Treasury shares are deducted from equity. Hence, a decrease in treasury shares leads to an increase in total equity: e.g. for the construction sector, Chart 11 depicts the decrease in treasury shares as a positive contribution to the sector's total equity.

IV.2 DECLINING MEDIAN NET INDEBTEDNESS RATIO IN MOST COUNTRIES AND ALL SIZE CLASSES

The net indebtedness ratio is calculated as the sum of the current and non-current financial liabilities reduced by cash and cash equivalents in relation to the total assets. It represents the proportion of an enterprise group's total assets that is financed through external borrowings, excluding cash and cash equivalents.

Chart 13 shows the median net indebtedness ratio for different sectors, size classes and country of location of the groups' parent entity in the sliding sample. In contrast to the overall trend of a rising net indebtedness ratio in 2019, the median net indebtedness with respect to total assets declined from 20.2 % to 18.5 % in 2020. The steep increase in cash and cash equivalents, up by around one third in comparison to the previous year, offset the growth of current and non-current financial debt by 5 % and 8 % respectively. Especially the industry sector, and in particular car manufacturers, built up large positions in cash and cash equivalents. Among the different sectors, the energy sector shows the highest median net indebtedness ratio at 27.5 %, despite a slight year-on-year decrease of 0.4 pp. In addition, the dispersion of the distribution has narrowed. For both industry and the services sector, the median is in decline, in line with a reduction in the spread of the distribution of the net indebtedness ratio. With respect to a breakdown of the size classes, there is an evident decline across all three size classes. Medium-sized companies recorded the steepest fall in the net indebtedness ratio among all size classes, with a decline of 2.1 pp.

CHART 13 NET INDEBTEDNESS RATIO 2019-2020 (in %)



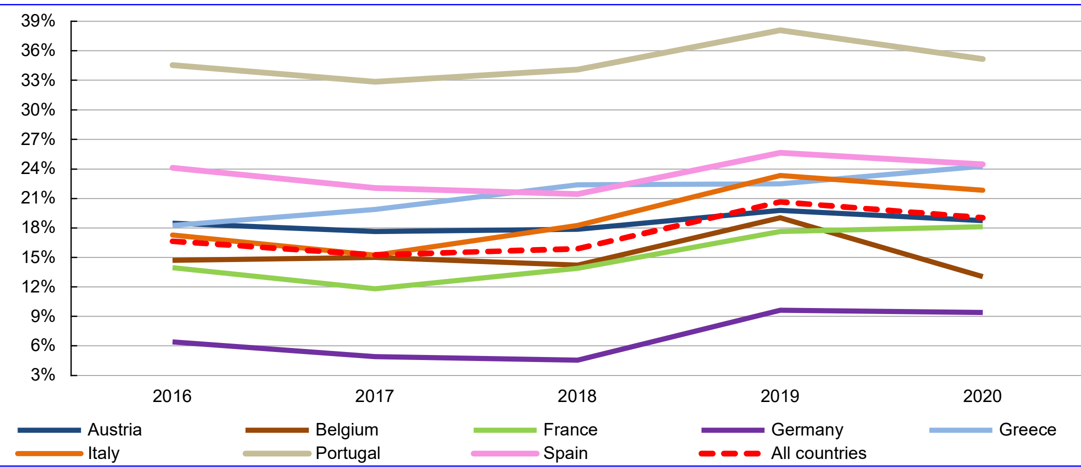
Source: ERICA 2020 sliding sample.

A breakdown by country reveals that the level of the median net indebtedness ratio is highest for Portugal in the observed timespan of two years, at 38.1 % in 2019 and 35.2 % in 2020. Except for France and Germany, with rates below 19 %, all other countries recorded figures between 19.3 % and 25.4 % in 2019.

In comparison to 2019, the country breakdown generally shows a fall in the net indebtedness ratio in 2020. Except for Greece, for which the median ratio rose by 2.5 pp from 22.6 % to 25.1 %, all other countries experienced a decline in the net indebtedness ratio. Belgium, Portugal and Turkey saw the steepest decline, at 4.6 pp, 2.9 pp and 2.7 pp respectively, with the Portuguese decline starting from a high level of 38.1 % in 2019. For all other observed countries recording a decline in net indebtedness, the reduction was rather small at around 2 pp.

Based on a fixed sample of European non-financial listed groups, the median net indebtedness ratio remained fairly stable around 15-16 % between 2016 and 2018. In 2019, the first application of IFRS 16 resulted in the recognition of additional lease debts and a subsequent rise in median net indebtedness to 20.6 %. During the first year of the Covid-19 crisis, the ratio subsided to 19 %. A similar trend is observed in weighted average figures[7]. The 2020 fall in net indebtedness is observed in all countries except Greece and, to a lesser extent, France. 19 out of 37 Greek groups experienced an increase in the relative weight of their net debt. As a result of the pandemic, nearly all of them had to finance a negative free cash flow, or at least faced a significant deterioration in their free cash flow. Some of these groups did not only take on additional debt but also used some of their cash reserves. They all belong to activity sectors that were hit particularly hard by the health crisis, such as manufacture of refined petroleum products (due to reduced economic activity, demand plummeted leading to a collapse in prices), air transport, gambling, accommodation services, etc. Belgian groups demonstrated the biggest drop in median net indebtedness. Nearly 70 % of the Belgian sample managed to lower the relative weight of net debt. This is explained by the fact that the majority of Belgian groups generated a positive free cash flow that was specifically used to phase out financial debt and/or strengthen the cash position. Manufacturers of essential products (such as food products) or basic chemicals used in the production of essential products, manufacturers of medical equipment, postal activities (backed-up by booming e-commerce) and gas distribution clearly suffered less during 2020. Many other Belgian groups achieved positive free cash flows for various reasons, such as a group that finalised business divestments and groups that successfully launched cost saving programmes.

CHART 14 MEDIAN NET INDEBTEDNESS BY COUNTRY 2016-2020



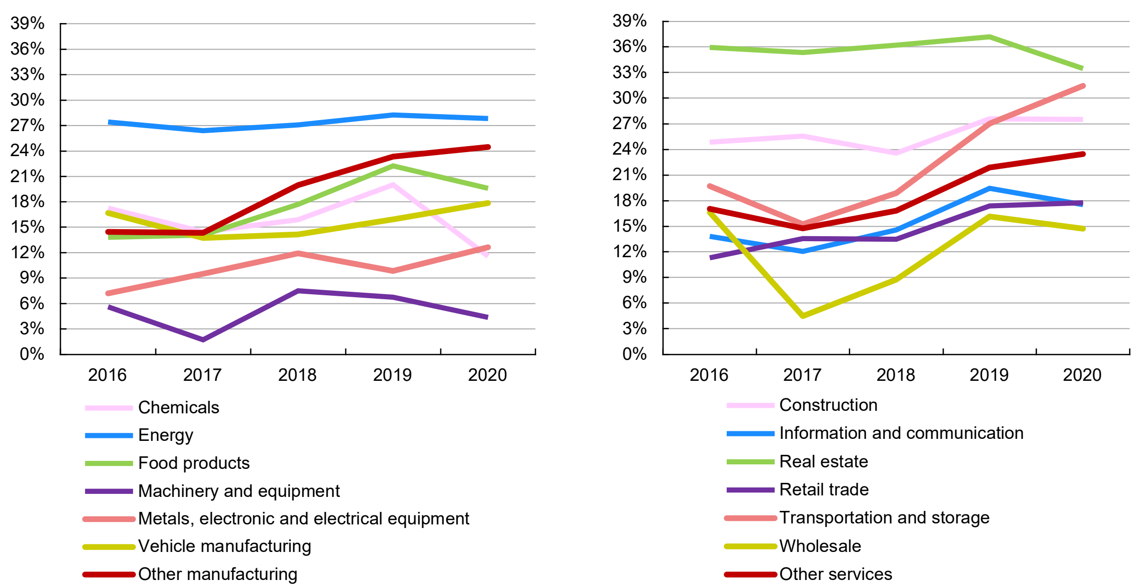
Source: ERICA 2020 fixed samples.

Chart 15 clearly demonstrates that the impact of the Covid-19 crisis differs significantly from sector to sector[8]. Transportation and storage – where median net indebtedness has grown continuously and significantly since 2018 – shows the biggest rise (+4.4 %). More than one third of the groups belonging

[7] A chart showing weighted average net indebtedness ratio per country is included in Annex C.1.
[8] Charts showing weighted average net indebtedness ratio per branch of activity are included in Annex C.2.

to this sector are involved in air transport activities: airlines, airport operators and other services incidental to air transportation. Travel restrictions – first imposed globally and later partially – resulted in an unprecedented collapse of air traffic and revenue. Having less flexibility in operating expenditures coupled with capital costs that are largely fixed, many large players were forced to call on (state) aid in the form of new loans. The median net indebtedness figures in the chemicals sector reveal a completely different picture. The health crisis even wiped out the increase that originated from the recognition of lease debts in 2019. Three quarters of the chemical groups reduced the relative weight of their net debt in 2020, largely enabled by the growth in free cash flows. The reason is that this sector is frequently involved in essential activities, such as the manufacture of pharmaceutical products, pesticides and other agrochemical products, and the manufacture of plastic packaging goods for food products and detergents (a market that obviously boomed in 2020). For the same reason, the food products industry also succeeded in lowering its median net indebtedness. The 2020 net debt ratio improvement in the real estate sector might be somewhat more surprising, since some players actually faced a decline in their rental income as a result of the pandemic. However, as the major part of their cash flows is often not determined by operational activities, other measures were available in order to safeguard the groups' liquidity. Several groups sold buildings during 2020, others reduced their investments to a minimum. One group in particular, specialising in logistics real estate, even benefited from the crisis, given the booming e-commerce business. Another real estate group revalued its investment property, boosting its total assets and therefore its net indebtedness.

CHART 15 MEDIAN NET INDEBTEDNESS BY BRANCH OF ACTIVITY 2016-2020



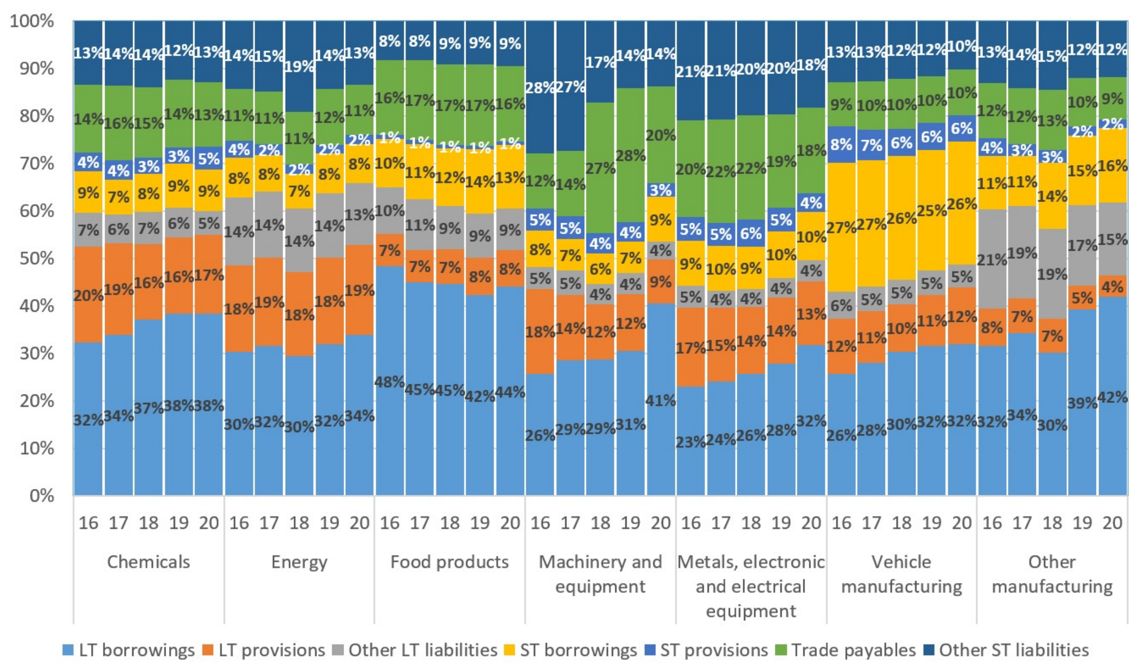
Source: ERICA 2020 fixed samples.

IV.2 SHIFTS IN DEBT STRUCTURE OVER TIME

In the previous section, we focused on net financial debt. But how do financial debts relate to other forms of liabilities and how does this ratio change over time? Chart 16 offers some insight for the energy and industry sectors. Each bar represents the relative weight of the different debt components in total liabilities. The debt components shown are long-term borrowings, long-term provisions, other long-term liabilities, short-term borrowings, short-term provisions, trade payables and other short-term liabilities. Chart 17 displays a similar graph for the construction and services sectors. Two outliers have been removed from the graphs as they distort the picture in the respective branches of activity: a postal group in the transportation and storage sector and a brewery group in the food products sector.

The charts reveal that many of the most capital-intensive sectors – namely real estate, information and communication, energy, and transportation and storage – are the most reliant on long-term debt. In 2020, more than 65 % of their liabilities were long-term. Long-term borrowings make up the bulk of that. In 2020, the relative weight of long-term borrowings increased in most branches of activity. This rise was most pronounced in the machinery and equipment sector, primarily on account of one group. There is not a single sector that posted a lower relative weight of long-term borrowings in 2020 compared to 2019. In general, long-term provisions are relatively less important in services sectors than in industry sectors, and other long-term liabilities play a minor role in most branches of activity. However, that is not the case in other manufacturing. One of the groups belonging to this sector recorded significant purchase commitments for minority interests' shares.

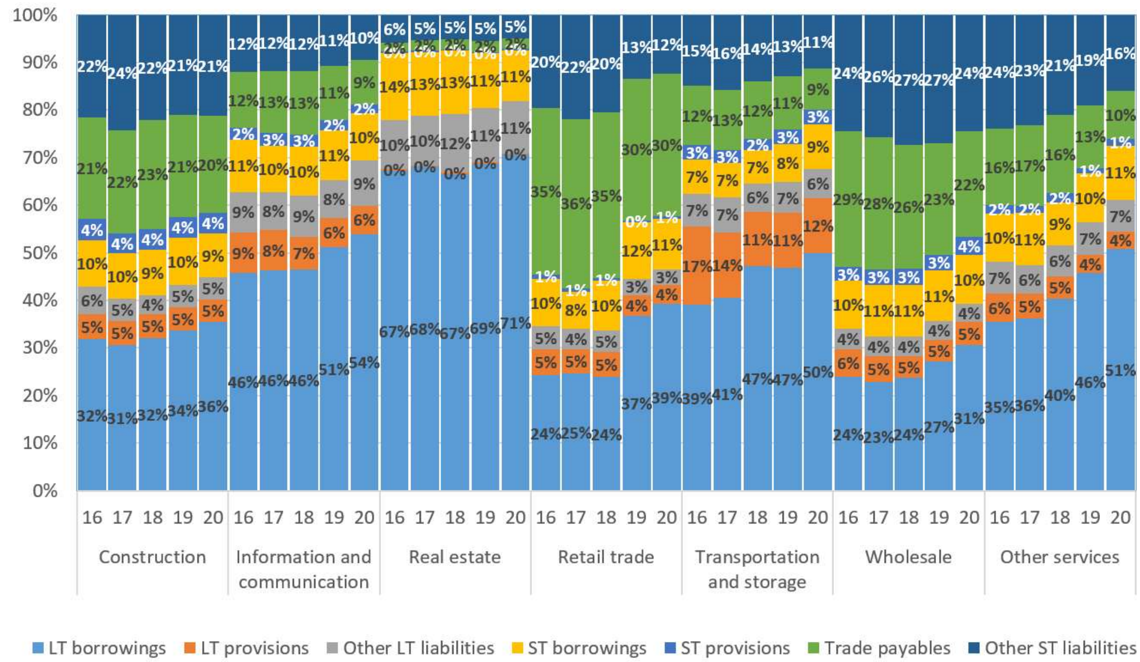
CHART 16 DEBT STRUCTURE BY INDUSTRY SECTOR 2016-2020



Source: ERICA 2020 fixed samples.

Short-term liabilities remain the most important source of financing over time (between 61 % and 68 %) in the wholesale sector. In previous years, similar figures were observed in retail trade, but following the recognition of long-term lease debts in 2019, the debt structure changed significantly. The impact of IFRS 16 was less pronounced in the wholesale sector. Despite their lower weight of short-term liabilities, vehicle manufacturers are the most reliant on short-term borrowings, relatively speaking. Trade payables is one of the debt categories where large discrepancies are observed among sectors: real estate groups have hardly any trade payables on the liability side of their balance sheet (2 % of liabilities), as their volumes of goods and services bought is limited, while it remains one of the main sources of financing for retail groups (30 % in 2020). It is striking that – in 2020 – the relative weight of trade payables was reduced in most sectors and remained stable in all others. Several circumstances could explain this observation. Following the outbreak of the pandemic, liquidity issues emerged as one of the main concerns of companies. There are many ways to mitigate these liquidity issues. A simple solution could be to reduce payment periods for customers. Listed groups may have responded to these liquidity needs of their suppliers. Additionally, as a first reaction to the outbreak of the health crisis and the subsequent lockdowns, many companies started to build up large stocks of raw materials and consumables in order to safeguard their production processes. During the second half of the year, it became clear that renewed public health measures were having far less impact on the supply chain, so that inventories could be partially reduced again.

CHART 17 DEBT STRUCTURE BY SERVICES SECTOR 2016-2020



Source: ERICA 2020 fixed samples.

Finally, the relative weight of other short-term liabilities in total liabilities varies between 5 % in real estate groups and 24 % in wholesale groups. This category of liabilities comprises numerous items such as deferred income, tax payables, accrued payroll amounts, accrued administrative liabilities, dividends to pay and advances received.

V. FINANCIAL DEBT: COST OF DEBT CONTINUES TO DECREASE

This chapter analyses financial debt through the decomposition of its components: (1) financial institutions, (2) bond issues, (3) leases and the cost of debt. In the 2020 ERICA database for non-financial European listed groups, out of 920[9] groups there is only one which does not use debt capital in its activity. The remaining ones raised approximately € 2.9 billion from various sources in 2020.

TABLE 4 ERICA: OVERVIEW OF FINANCIAL DEBT AGGREGATE VARIABLES IN 2020

In € billion	Number	of which financial debt	Financial debt	Financial institutions	Bonds issued	Leases	Interest expense
By country							
Austria	40	40	44.43	17.41	19.19	4.79	1.02
Belgium	73	72	126.82	14.61	96.26	6.59	4.63
France	301	301	975.68	187.94	538.58	102.43	19.34
Germany	176	176	1,014.86	167.02	580.41	112.91	18.54
Greece	50	50	23.56	15.03	6.04	2.16	0.89
Italy	148	148	373.14	74.48	239.24	31.38	12.21
Portugal	30	30	43.02	8.08	25.00	7.31	1.22
Spain	102	102	305.60	106.51	118.45	36.36	7.73
Total	**920**	**919**	**2,907.11**	**591.08**	**1,623.18**	**303.93**	**65.59**
By sector							
Chemistry	93	93	212.49	41.26	144.26	14.40	5.65
Construction	46	45	116.96	45.53	55.63	7.39	2.99
Energy	59	59	555.30	105.78	348.09	45.53	18.91
Food products	41	41	120.42	9.88	102.80	4.41	4.39
Information and communication	131	131	405.61	66.29	242.69	51.36	10.44
Machinery and equipment	54	54	71.32	9.38	44.48	9.32	1.65
Metals, eletronic & electrical equipment	92	92	70.35	22.75	38.66	5.30	1.83
Other manufacturing	71	71	134.15	18.00	70.98	39.71	2.02
Other services	107	107	119.01	30.84	38.72	26.55	3.30
Real estate	55	55	117.50	40.98	69.89	2.63	2.12
Retail trade	40	40	80.15	18.60	21.09	29.94	1.74
Transportation and storage	33	33	278.79	65.33	137.77	39.49	5.37
Vehicle manufacturing	37	37	592.24	104.83	300.73	20.92	4.33
Wholesale	57	57	29.10	6.71	10.74	9.35	0.86
Total	**916**	**915**	**2,903.37**	**586.18**	**1,626.52**	**306.29**	**65.60**
By size (revenue)							
Small groups (<250mln)	377	376	47.40	25.93	12.85	4.72	1.25
Medium-sized (250mln-1.5bn)	265	265	165.15	74.57	58.96	18.47	4.23
Large groups (>1.5bn)	271	271	2,678.32	484.44	1,548.22	278.58	59.72
Total	**913**	**912**	**2,890.87**	**584.94**	**1,620.04**	**301.77**	**65.19**

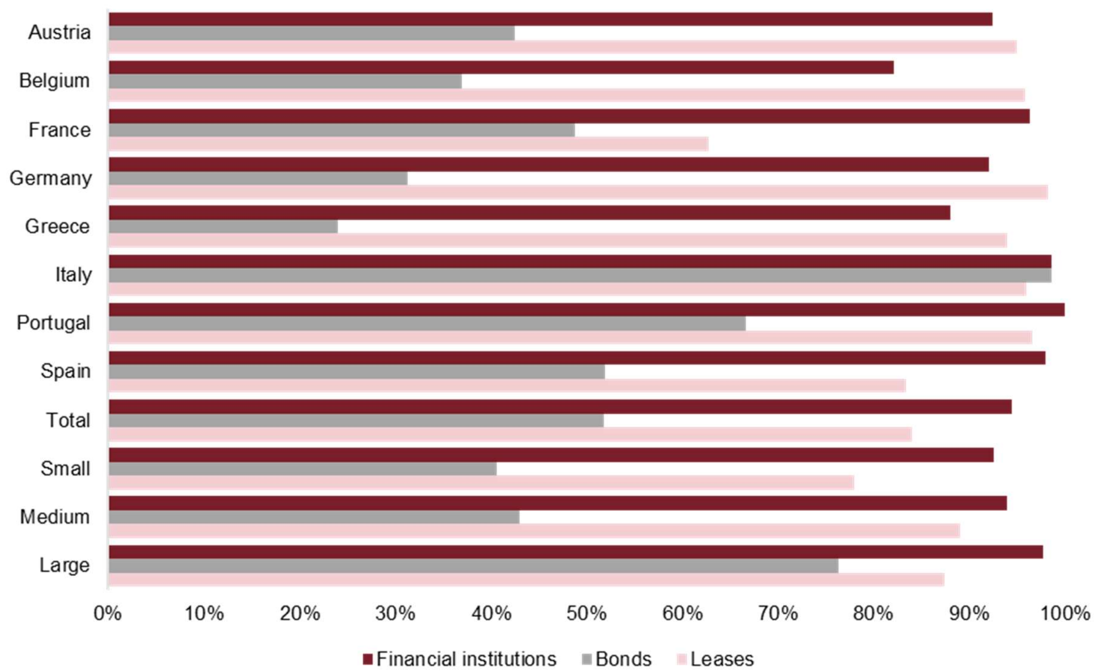
Source: ERICA 2020 static sample.
Note: The number of groups by country and by sector or by size varies: some double-counted groups belong to different countries but are in the same sector. Main figures for 2020 (filter used to avoid double-counting for each sector, size category and country), data in € billion.

[9] In this chapter, Turkish data has been disregarded, due to the unavailability of interest expenses figures.

V.1 BANK LOANS CONTINUE TO BE THE MOST COMMON SOURCE OF FINANCING. BOND ISSUANCES DOMINATE IN RESPECT TO THE TOTAL AMOUNTS

Loans from financial institutions, usually referred to as bank loans, were the most popular form of debt capital in 2020 for European non-financial listed groups overall, despite mixed results when we look at the country level data. Bank loans were more common in France (96 %), Italy (99 %), Portugal (100 %) and Spain (98 %). For Austria (95 %), Belgium (96 %), Germany (98 %) and Greece (94 %), leases were the most common source of financing (Chart 18 and Chart 19). By size class, the results are very clear-cut. Loans from financial institutions were the most frequent source of financing across all dimensions. Borrowings from bond issuance were an important option for large groups (76 %).

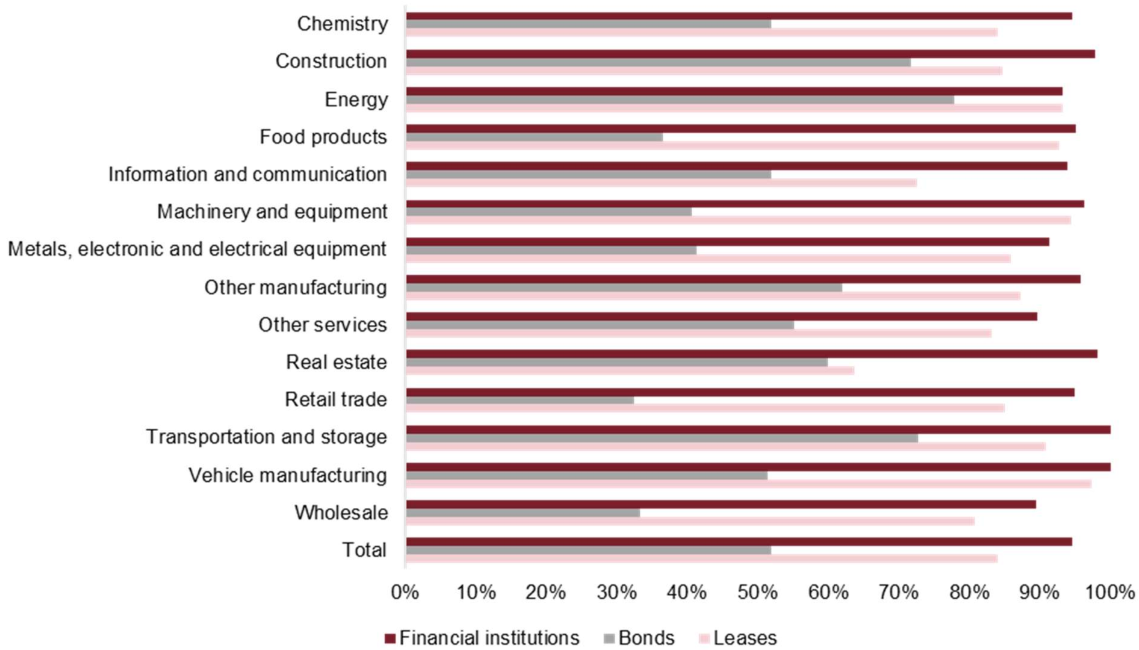
CHART 18 FINANCIAL DEBT STRUCTURE BY COUNTRY AND SIZE IN 2020 (number of groups)



Source: ERICA 2020 static sample.

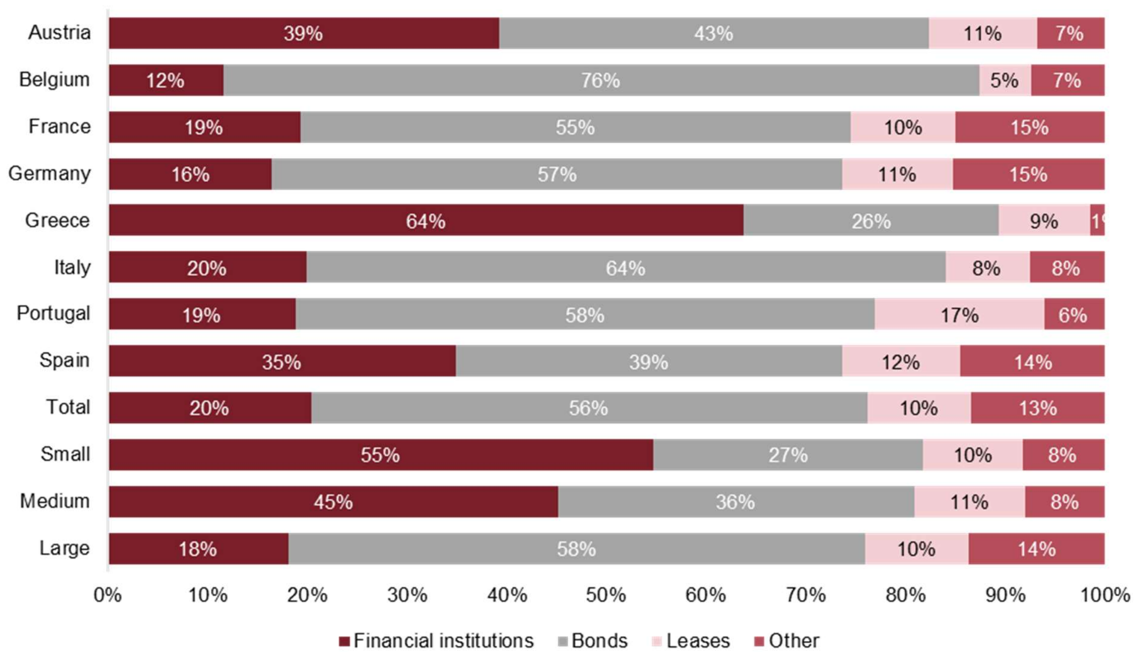
Bank loans were also the most prevalent form of debt capital (95 %) for all branches of activity. The only exception was the energy sector, in which groups relied equally on both financial institutions and leases (93 %). Bonds were also relevant for transportation and storage (73 %), construction (72 %) and energy groups (78 %).

CHART 19 FINANCIAL DEBT STRUCTURE BY BRANCH OF ACTIVITY IN 2020 (number of groups)



Source: ERICA 2020 static sample.

CHART 20 FINANCIAL DEBT STRUCTURE BY COUNTRY AND SIZE IN 2020 (total amounts)



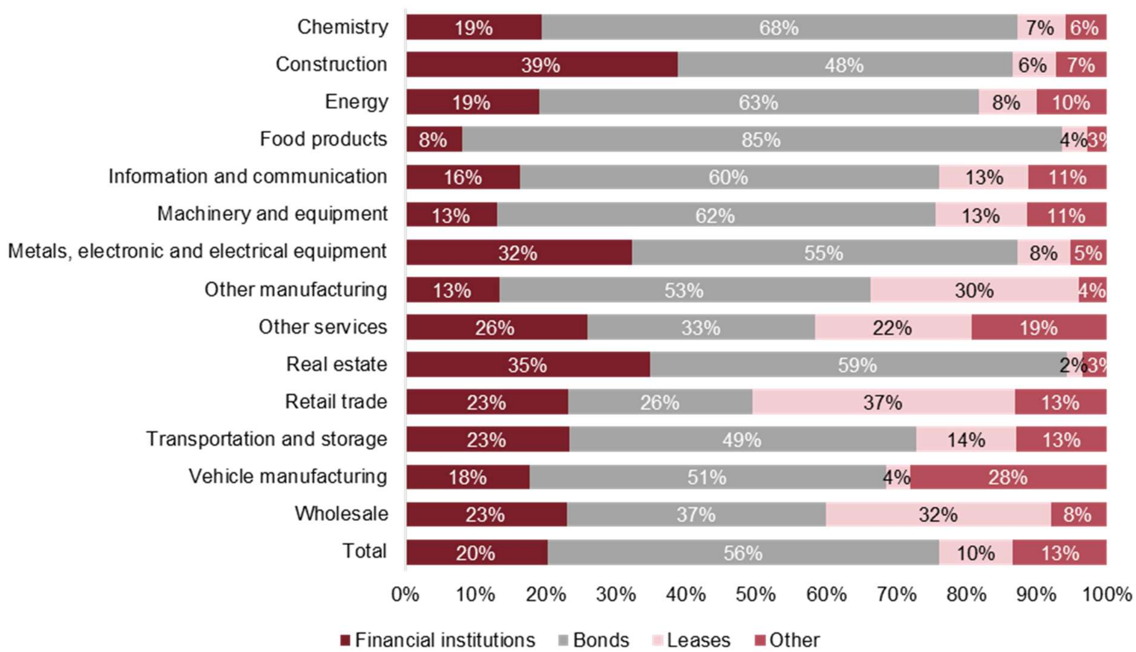
Source: ERICA 2020 static sample.

Even though groups more frequently use debt capital from financial institutions and leases, financial market funding via bonds remained the main source of financial debt in terms of amounts raised (56 %)

(Chart 20 and Chart 21). Indeed, at least half of funding needs were satisfied through bond issuance in most countries. Belgian groups showed the largest share (76 %) of bond issues in relation to total funding needs. Greek groups alone continued to borrow the majority of their funding from financial institutions (64 %).

Large groups prefer to obtain the major slice of their funding from bond issuances (58 %); because of their size, they dictate the overall outcome. The remaining size classes tend to rely on loans from financial institutions (55 % for small groups and 45 % for medium-sized groups).

CHART 21 FINANCIAL DEBT STRUCTURE BY BRANCH OF ACTIVITY IN 2020 (total amounts)



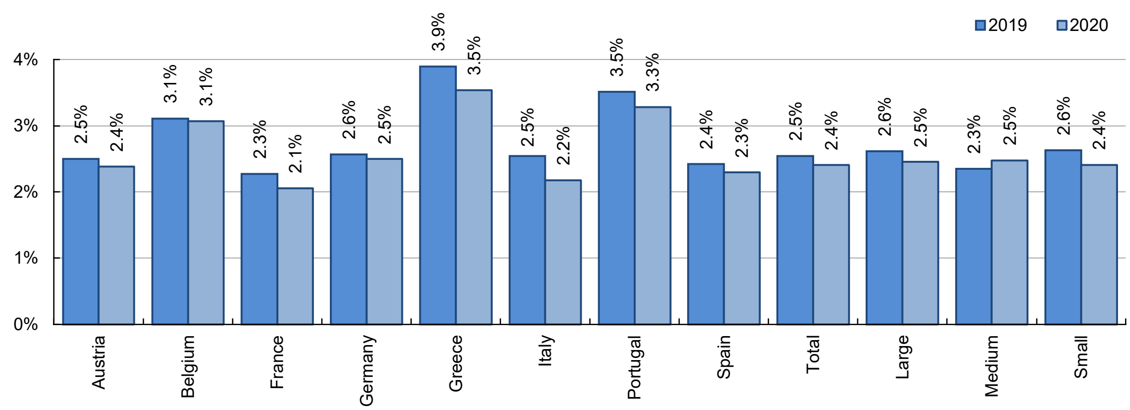
Source: ERICA 2020 static sample.

The majority of the sectors replicated the country pattern of relying on bond issuance for more than 50 % of their debt capital, with an impressive record figure of 85 % for groups in the food sector. The sectors that deviate from this figure were wholesale and other services groups, which allocated their financing needs more or less equally between financial institutions, leases and bonds, and the retail trade sector in which the amount of money raised through lease debts was higher than for any other source (37 %).

V.2 DECREASING TREND IN COST OF DEBT BY COUNTRY AND SIZE DESPITE HIGHER INDEBTNESS

The cost of debt of the European non-financial listed groups decreased in median terms to 2.4 % in 2020 from 2.5 % in 2019 (Chart 22). This decline was observable across all countries and in the majority of size classes. By country, the relative order remained constant. Greek groups continued to record the highest value of the series while French groups posted the lowest figure for both 2019 and 2020. However, as both Greek and Italian groups saw the biggest decline of 0.4 pp, the spread between the highest and the lowest cost of debt by country (Greece and France, respectively) shrank once again to 1.4 pp.

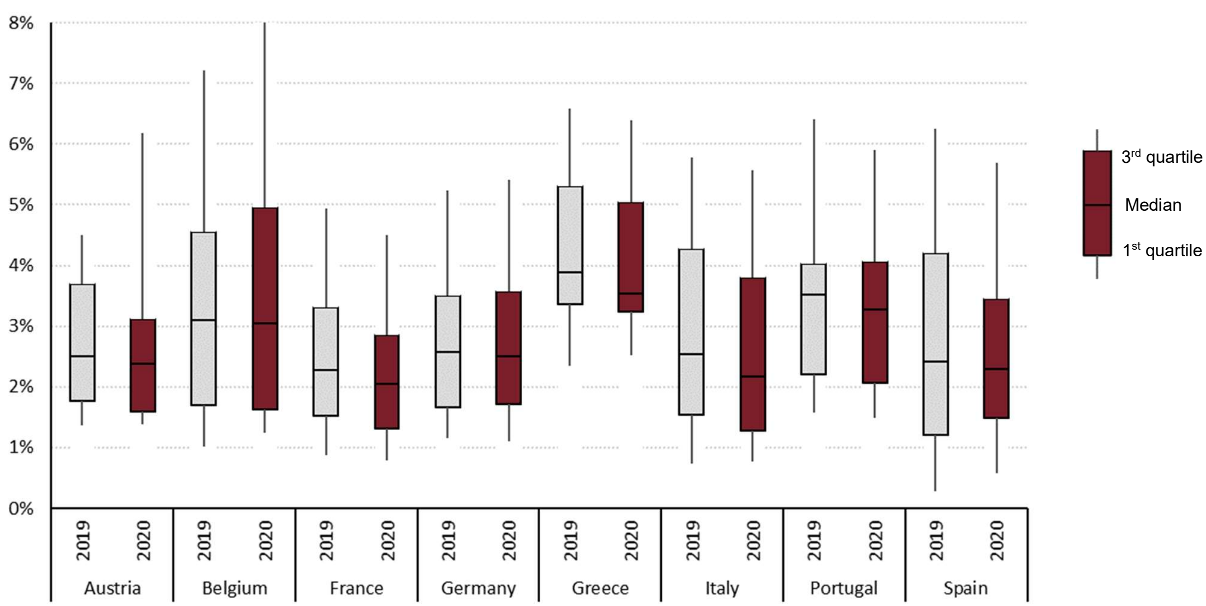
CHART 22 MEDIAN COST OF DEBT BY COUNTRY AND SIZE 2019-2020 (in %)



Source: ERICA 2019-2020 sliding sample.

Regarding size, there was a change in the rankings. Medium groups increased their cost of debt by 0.2 pp. In 2019, they were the size class with the lowest cost of debt. In 2020, they became the size class with the highest figure. Small groups moved in the opposite direction while large groups preserved their intermediate position within the size classes. Both size classes decreased their cost of debt from 2019, by 0.2 pp for small groups and 0.1 pp for large groups.

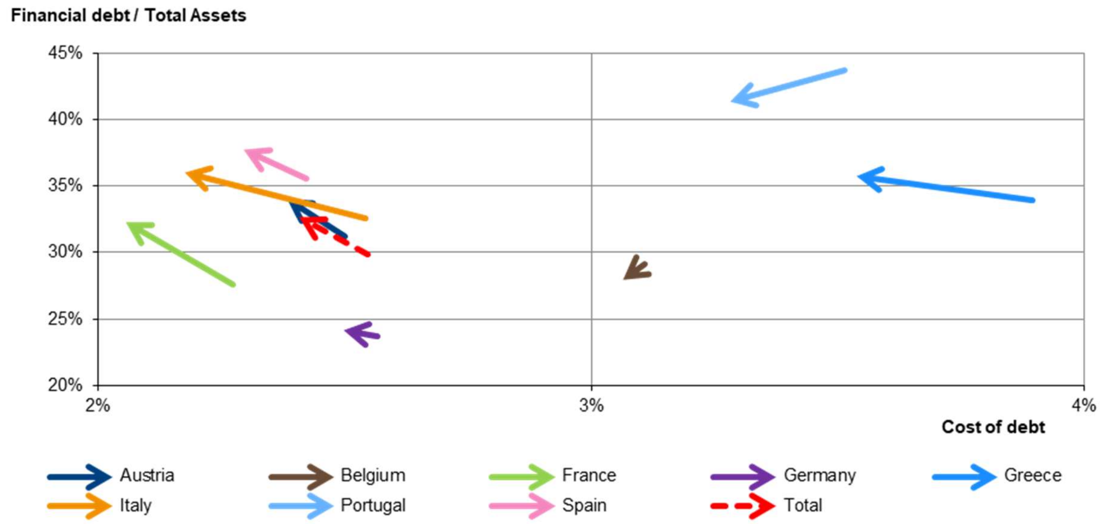
CHART 23 COST OF DEBT BOX PLOT BY COUNTRY 2019-2020



Source: ERICA 2019-2020 sliding sample.

Chart 23 reinforces the conclusions of Chart 22. All countries observed a general decline for all moments of distribution, with few exceptions. The interquartile range, which is the difference between the third and first quartile, widened for Belgian groups (driven in particular by an increase of 0.4 pp on the third quartile) and narrowed significantly for Spanish groups as a consequence of both a reduction of 0.8 pp on the third quartile and a rise of 0.3 pp on the first one.

CHART 24 COST OF DEBT AND FINANCIAL DEBT TO TOTAL ASSETS BY COUNTRY IN 2020



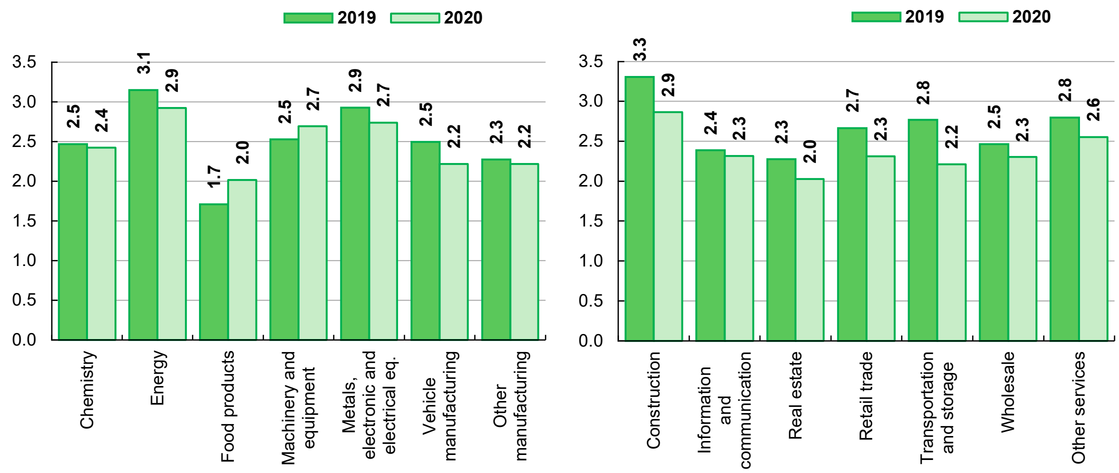
Source: ERICA 2019-2020 sliding sample.

The ratio of financial debt to total assets increased for the majority of countries, with only Belgium and Portugal diverging from the main trend (Chart 24). Despite that, Portuguese groups continued to be the most indebted. The two countries mentioned above were the only ones to display the expected positive correlation between the ratio of financial debt to total assets and the cost of debt. For the remaining ones, despite that higher leverage, the price that creditors demanded decreased. German and Belgian groups, which were the least and the second least leveraged groups of all, had a higher median cost of debt than French, Italian, Spanish and Austrian groups in 2020. A similar result was found for Portuguese and Greek groups, as the median cost of debt for Portuguese groups was 0.2 pp lower than for Greek groups, even though they had a higher ratio of financial debt to total assets (+6 pp).

V.3 SIGNIFICANT DECLINE IN THE DIFFERENCE BETWEEN HIGHEST AND LOWEST COST OF DEBT BY BRANCH OF ACTIVITY IN 2020

Chart 25 presents the median cost of debt calculated by branch of activity. For the majority of sectors, there was a decline in that indicator between 2019 and 2020. Overall, the cost of debt decreased by 0.2 pp per branch of activity, especially for transportation and storage (-0.6 pp), retail trade and construction with a similar decline of 0.4 pp. Food products and machinery and equipment were the only sectors that recorded a rise in cost of debt in 2020. The results also show that the differences between sectors have decreased. Food products, which had the lowest cost of debt in 2019 and again in 2020, saw an increase in their cost of debt, as previously mentioned. Construction, which had the highest cost of debt in the previous year, showed a decline in 2020. As a result, the spread between the highest and the lowest cost of debt came to only 0.9 pp in 2020, which is significantly lower than a year earlier (1.6 pp).

CHART 25 MEDIAN COST OF DEBT BY BRANCH OF ACTIVITY 2019-2020 (in %)



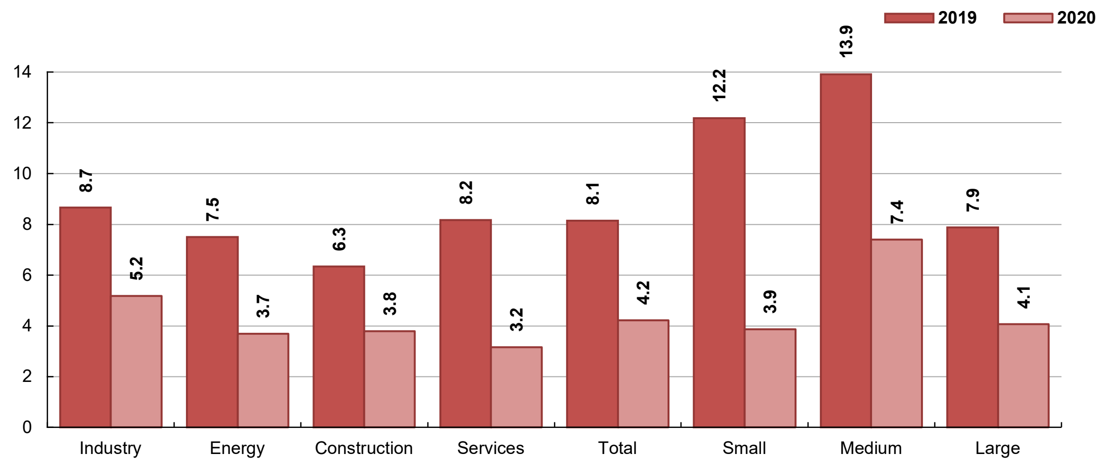
Source: ERICA 2019-2020 sliding sample.

ANNEX A: DEFINITION OF THE BRANCHES OF ACTIVITY

Name of the sector	**NACE-BEL 2008** *(2 digits)*
Food products	01; 02; 10 - 12
Chemicals	20 - 23
Metals, electronic and electrical equipment	24 - 27
Machinery and equipment	28
Vehicle manufacturing	29 - 30
Other manufacturing industry	03; 07 - 09; 13 - 18; 31 - 33
Energy	05 - 06; 19; 35 - 36
Construction	41 - 43
Retail trade	45; 47
Wholesale	46
Transportation and storage	49 - 53
Information and communication	58 - 63
Real estate	68
Other services	37 - 39; 55 - 56; 69 - 96

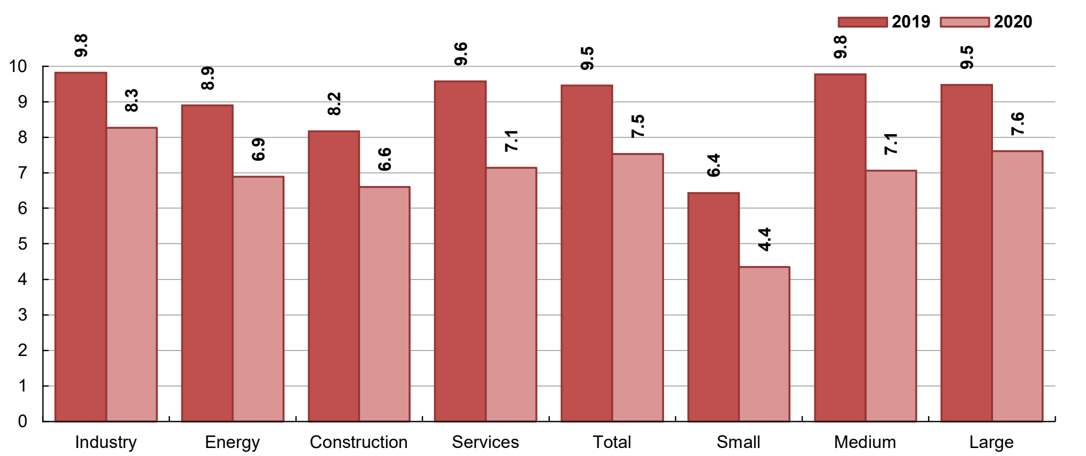
ANNEX B: PROFITABILITY RATIOS – WEIGHTED AVERAGE BY SECTOR AND BY SIZE

1. WEIGHTED AVERAGE EBIT MARGIN: EBIT / REVENUE 2019-2020 (in %)



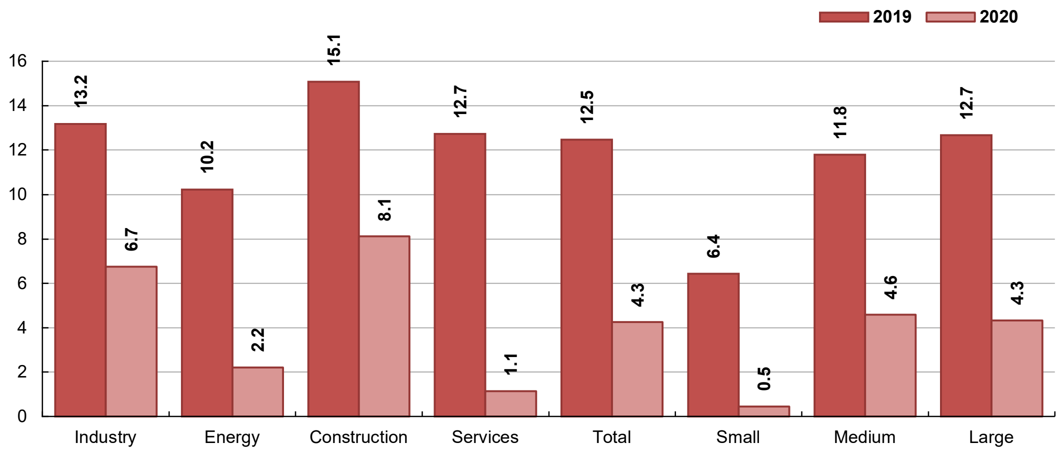
Source: ERICA 2020 sliding sample.

2. WEIGHTED AVERAGE EBITDA-TO-ASSETS RATIO 2019-2020 (in %)



Source: ERICA 2020 sliding sample.

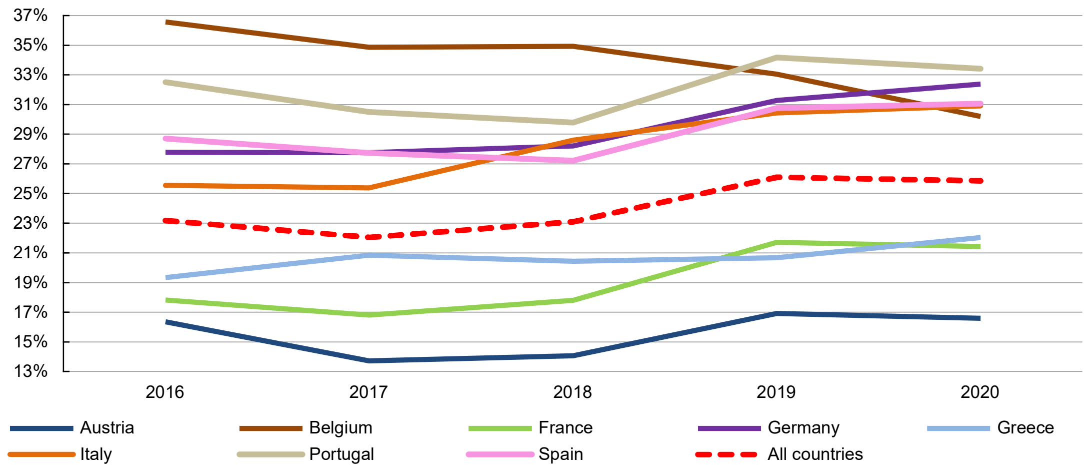
3. WEIGHTED AVERAGE RETURN ON EQUITY 2019-2020 (in %)



Source: ERICA 2020 sliding sample.

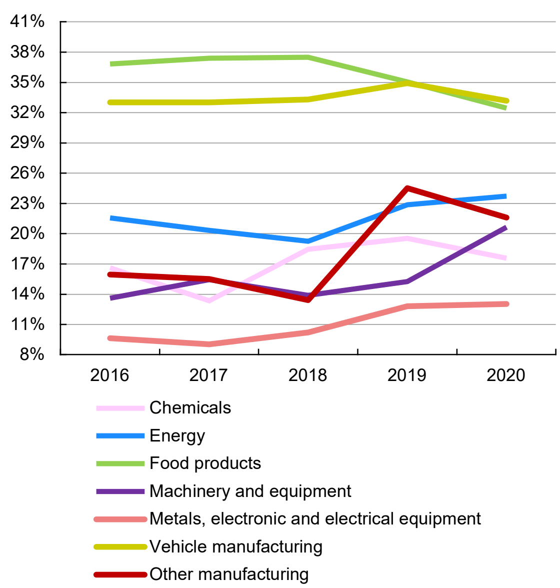
ANNEX C: NET INDEBTEDNESS – WEIGHTED AVERAGE PER COUNTRY AND BRANCH OF ACTIVITY

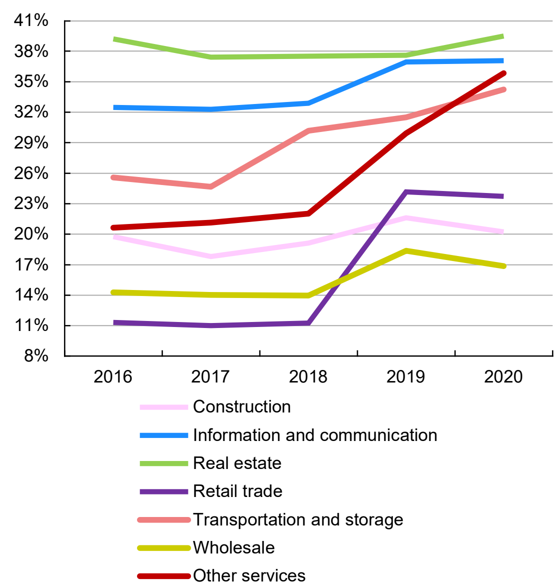
1. WEIGHTED AVERAGE NET INDEBTEDNESS BY COUNTRY 2016-2020



Source: ERICA 2020 fixed samples.

2. WEIGHTED AVERAGE NET INDEBTEDNESS BY BRANCH OF ACTIVITY 2016-2020





Source: ERICA 2020 fixed samples.

ANNEX D: DEFINITION OF MAIN RATIOS

PROFITABILITY		
NAME	**DESCRIPTION**	**FORMULA**
EBITDA	Earnings Before Interest, Taxes Depreciation and Amortisation (proxy for operating cash flow)	(Profit (loss) from operating activities + depreciation and amortisation + impairment losses) $_t$
EBIT	Earnings Before Interest and Taxes	Profit (loss) from operating activities $_t$
Profit/Loss	Profit/Loss after Taxes	Profit (loss) from operating and financing activities after taxes $_t$
EBITDA/Total Assets	Earnings Before Interest, Taxes Depreciation and Amortisation / Total assets, also known as EBITDA-ROI (proxy for operating cash flow per monetary unit of assets invested)	(Profit (loss) from operating activities + depreciation and amortisation + impairment losses) $_t$ / Total assets $_t$
EBIT margin	Earnings Before Interest and Taxes / Revenues	Profit (loss) from operating activities $_t$ / Revenues $_t$
ROE	Return on Equity	Earnings Before Taxes $_t$ / Equity $_t$
FINANCIAL STRUCTURE AND COST OF DEBT		
Equity Growth	Change in consolidated equity year on year (YoY)	Equity $_t$ / Equity $_{t-1}$-1 or (Equity$_t$-Equity$_{t-1}$) / Equity$_{t-1}$
Equity Ratio	% of total assets financed with equity (a kind of leverage ratio)	Equity $_t$ / Total assets $_t$
Cost of Debt	Weighted (by external financing source) average cost of external financing debt	Total interest expense $_t$ / Financial debt $_t$
Financial Debt Ratio	Use of credit to finance operations and investment	Non-current and current interest-bearing borrowings $_t$ / Total assets $_t$
Net Indebtedness Ratio	% of total assets financed through external borrowings that are not covered by cash or cash equivalents	(Non-current and current interest-bearing borrowings $_t$ - Cash & cash equivalents $_t$) / Total assets $_t$