European non-financial listed groups: Analysis of 2016 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
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European Committee of Central Balance Sheet Data Offices

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Members of the ERICA (European Records of IFRS Consolidated Accounts) WG

Saskia Vennix (chairwoman)
Saskia.Vennix@nbb.be
Banque Nationale de Belgique
Claire Mangin (vice-chairwoman)
Claire.MANGIN-SOUBRET@banque-france.fr *Banque de France*
Riccardo Renzi
riccardo.renzi@bancaditalia.it
Banca d'Italia
Pilar Saura
Pilar.Saura@bde.es
Banco de España
Ana Bárbara Pinto
apinto@bportugal.pt
Banco de Portugal
Olga Lymperopoulou
olimperopoulou@bankofgreece.gr
Bank of Greece
Laurent Carlino
Laurent.CARLINO@banque-france.fr
Banque de France
Ilse Rubbrecht
Ilse.Rubbrecht@nbb.be
Banque Nationale de Belgique
Vincenzo Favale
vincenzo.favale@cervedgroup.com
Centrale dei Bilanci / Cerved Group
Frank Raulf
frank.raulf@bundesbank.de
Deutsche Bundesbank
Lena Leontyeva
olena.leontyeva@bundesbank.de
Deutsche Bundesbank
Sabine Wukovits
Sabine.Wukovits@oenb.at
Oesterreichische Nationalbank
Katarzyna Bankowska
katarzyna.bankowska@ecb.europe.eu
European Central Bank
Izabela Ruta (observer)
iruta@ifrs.org
IASB
Onur Yilmaz (observer)
IsmailOnur.Yilmaz@tcmb.gov.tr
Central Bank of the Republic of Turkey

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

The data used in this study are obtained from publicly available financial statements of European non-financial listed groups, having been treated manually, by CBSO statisticians and accounting specialists, to be fitted on a standard European format (ERICA format); this manual treatment involves, in some cases, the 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 attained with ERICA (in the whole dataset of almost 1.000 groups) on the listed European groups is well-attuned to the situation and national composition of the stock markets. The analysis performed in this document, with the limitation expressed in the previous paragraph, provides a view of the position and performance of the listed non-financial European groups. However, the analysis includes some commentaries about the performance of the 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 a 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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CONTENTS

STATISTICAL ANNEXES (these annexes are only distributed in www.eccbso.org)

I. EUROPEAN NON-FINANCIAL LISTED GROUPS: INTRODUCTION AND MAIN FINDINGS FROM 2016 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 2016 database (almost 1,000 listed non-financial groups, with nearly € 7,000 billion in assets and € 4,000 billion in revenue), with the more relevant facts for the year, about profitability and financial structure of European listed non-financial groups, as well as about financial debt structure and cost of debt. The document is supplemented by statistical annexes (only available in the version released via www.eccbso.org) and other documents, called "the ERICA series", which offer deeper analysis of consolidated groups regarding a variety of themes (cash flow statement analysis, employment, revenue variance, goodwill and goodwill impairment and others, some of them currently under development).

This report uses three different samples:

- A *static* sample: This sample includes all groups for which data is collected in ERICA for the year 2016. The static sample consists of about 980 groups.
- A *sliding* sample: This sample is obtained by selecting all groups for which data is collected in ERICA for both 2015 and 2016. The sliding sample encompasses 904 groups. Here, no change of sector or size is allowed.
- A *fixed* sample: This sample only takes into account those groups for which data is collected in ERICA for each year over the 2012-2016 period. 684 groups are captured in the fixed sample.

Each sample is compiled by country and by sector, depending on the type of analysis. In the samples by country, the country doubles (i.e. subsidiary groups of a higher-level group allocated to the same country) have been removed; in the samples by sector, the sector doubles (i.e. subsidiary groups of a higher-level group allocated to the same sector) have been removed. Furthermore, the static and the sliding samples are made up by size classes. They are adjusted by eliminating global doubles (i.e. subsidiary groups of a higher-level group that is also included in the sample)[2]. For all conclusions derived from the total data, the same constraints (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).

The main findings of the study with 2016 data are:

1 Operating results and profitability both improve further in 2016

European listed groups continued the positive trend in aggregate EBIT for the last three years with a steadily increasing growth rate. Aggregate revenue, on the other hand, declined by 3.2%. Both variables have been influenced significantly by large energy groups. Excluding these groups and the German Volkswagen Group (outlier), revenue and EBIT rose by 0.7% and 10.4% respectively. All profitability measures analysed in this document – the EBIT ratio, the EBIT margin, the EBITDA to assets ratio and return on equity – show a rise in 2016, both in aggregate and median terms. In the (smaller) fixed sample covering the last five years, EBIT margin reaches its highest level under the influence of all sectors except construction. The country comparison of the median EBIT ratio clearly reveals a north-south divide in profitability. The median northern group generates more EBIT in relation to total assets than the median southern group. German groups seem to be the most profitable of all ERICA countries, except in terms of EBIT margin, whereas Portuguese groups face a fall or a status quo at the most in all profitability measures.

[2] All country doubles are by definition global doubles as well.

2 Balance sheet positions, equity, financial debt and cash and cash equivalents all move upwards in 2016, but impact on related weighted average ratios remains limited

As in 2014 and 2015, total equity grew at a comparable pace, resulting in a fairly stable equity position, even over a five-year period. The increase in equity was mainly led by the Anheuser-Busch – SABMiller merger, the German automotive industry and the services sector. Resulting from the brewery merger, the weighted average equity ratio of Belgian groups tumbled, which was offset in particular by the performance in Portuguese, Italian and Greek groups. Over the 2012-2016 period, the median equity ratio rose gradually.

The cash ratio improved slightly in 2016, both in aggregate and median terms, despite a downward aggregate evolution for Belgian and Greek groups.

Finally, the brewery merger also affected aggregate financial indebtedness negatively, resulting in the highest aggregate financial indebtedness ratio for Belgian groups. Median figures demonstrate an opposite trend though.

3 The majority of groups have bank loans, but bonds have more weight on aggregate. The weighted average cost of these financial debt shows a downward trend over time.

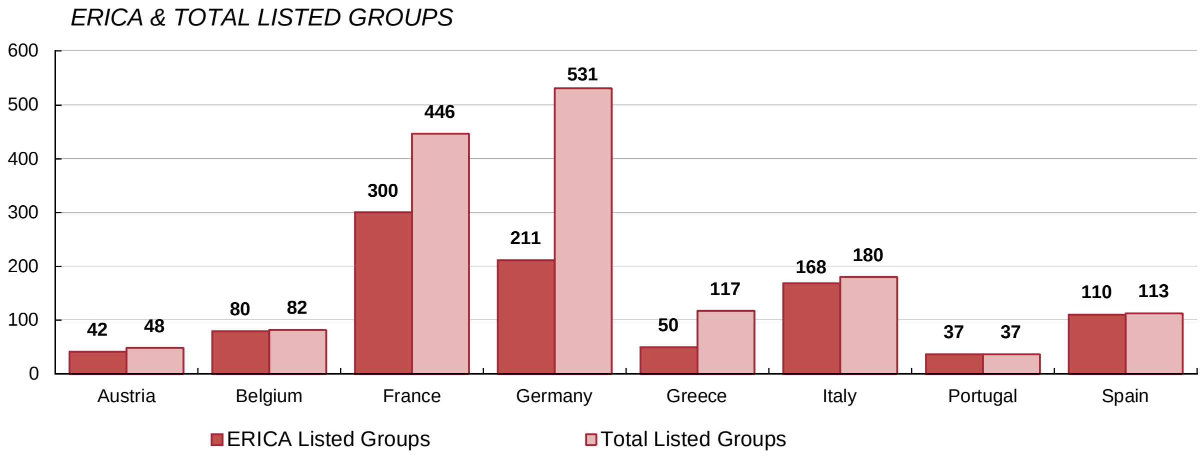
In terms of number of groups, borrowing from financial institutions is the most common way for groups to access external financing. Financing through bonds is positively correlated with size: especially large groups appeal to bonds to cover outgoing cash flows. If amounts are considered, financial market funding via bonds is the main source for debts, except for Austrian groups.

In 2016, the cost of financial debt came down in all countries, except Greece, albeit at a different pace. The same trend is observed in all sectors and size classes. The weighted average debt charge is highest for Greek groups, for construction groups and for medium-sized and small groups.

II. ERICA DATABASE: COVERAGE AND MAIN FIGURES

The coverage of the ERICA database in absolute terms involves a number of listed groups studied for 2016 ranging from 37 real cases in Portugal and 42 in Austria to 211 in Germany and 300 in France.

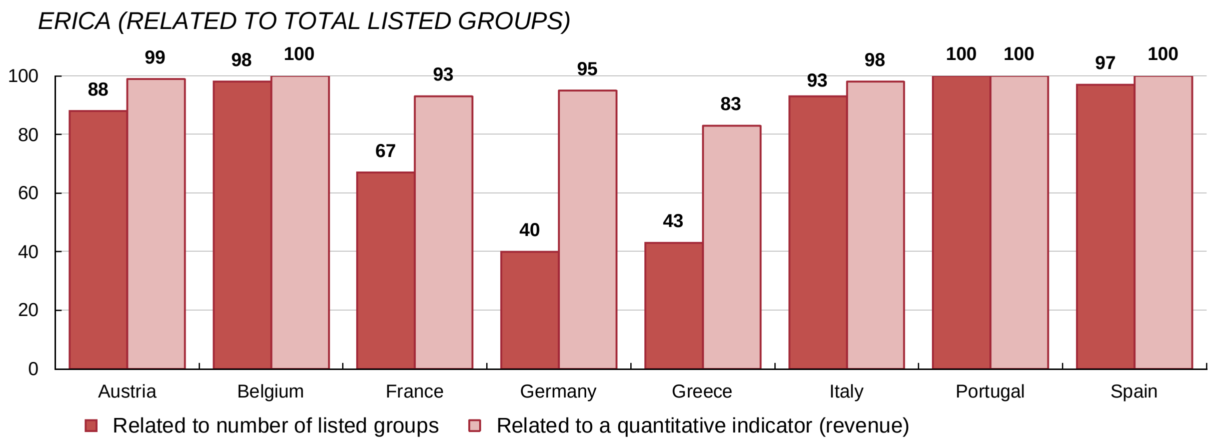
CHART 1 LISTED GROUPS BY COUNTRY (absolute number)



Source: ERICA 2016 and national databases.

Coverage of the ERICA database in terms of a quantitative indicator (revenue) shows that it is highly representative of the total population of listed European non-financial groups: coverage is very high for all countries, varying from 83% in Greece to 100% in Belgium, Portugal and Spain.
In relative terms, comparing the ERICA database with the total population of listed groups, the coverage rate varies between 40% in Germany or 43% in Greece and 100% in Portugal of all listed groups. These figures refer to the total sample, considering the double accounting filtering process that has been taken into account in the different analyses conducted in order to exclude country duplications.

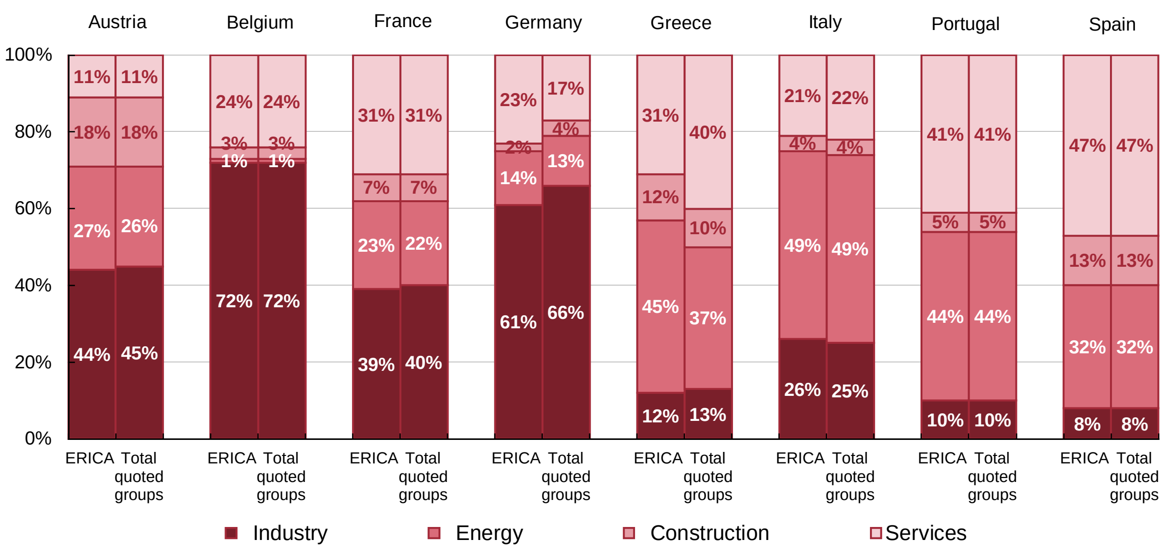
CHART 2 COVERAGE OF DATABASE (in %)



Source: ERICA 2016 and national databases.

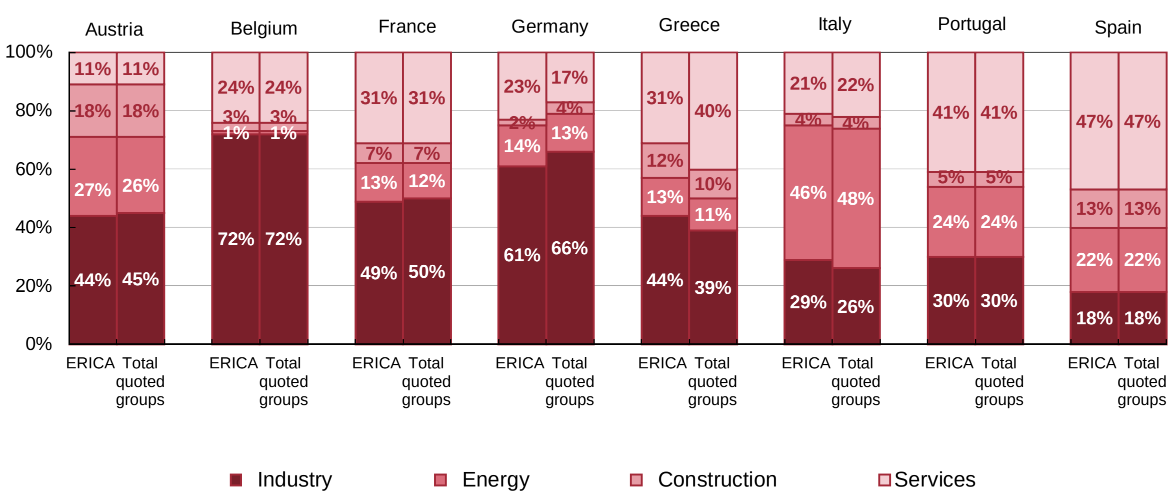
As for the ERICA dataset, the sectoral breakdown of listed European groups differs greatly from country to country. Industry is especially important in Austria, Belgium, France and Germany and relevant in Italy. The energy sector in the ERICA database has a high share of the market principally in Greece, Italy, Portugal and Spain and to a minor extent in Austria and France. The construction sector accounts for a large slice of the market in Austria, Greece and Spain, while in other countries it plays a minor role. Finally, the services sector is important in almost all the countries, being especially relevant in French, Greek, Portuguese and Spanish listed groups.

CHART 3 STRUCTURE BY COUNTRY AND SECTOR (RELATED TO REVENUE): ERICA



Source: ERICA 2016 and national databases.

CHART 4 STRUCTURE BY COUNTRY AND SECTOR (RELATED TO REVENUE): PREVIOUS CRITERIA – ERICA



Source: ERICA 2016 and national databases.

The ERICA WG has decided to modify the sector classification from this year's report onwards, allocating NACE 19 (manufacture of coke and refined petroleum products) as an energy sector and no longer industry. The new classification has been applied for all the years analysed in the current report, but this change should be taken into account when reading previous ERICA reports. Chart 4 presents the 2016 structure by country and sector considering the former criteria (i.e. NACE 19 as industry sector). When comparing it with chart 3, it can be observed that the new classification has a relevant impact in Greece, France, Portugal and Spain, whereas in the other countries it has very little impact or none at all.

III. PROFITABILITY: UPWARD TREND CONTINUES, ENERGY SHOWS SIGN OF RECOVERY

Profitability, along with the financial structure analysis carried out in this document, is based on financial data for 2016, 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, partitions of groups (such as parent companies and subsidiaries) may feature independently. Depending on the purpose of analysis, the samples are consolidated.

TABLE 1 ERICA: OVERVIEW OF AGGREGATE PROFITABILITY VARIABLES 2016

In billion EUR	Number	Total assets	EBIT	EBITDA	P/(L) before tax	Revenue
By country						
Austria	42	143.41	5.45	12.15	4.95	90.22
Belgium	80	363.54	19.33	29.06	9.80	136.52
France	300	2,514.39	122.38	216.55	104.49	1,416.57
Germany	211	2,205.25	95.81	211.37	81.26	1,543.59
Greece	50	68.05	3.42	6.37	2.42	41.53
Italy	168	807.55	27.55	57.42	22.21	305.67
Portugal	37	101.91	4.49	9.86	3.06	63.23
Spain	110	753.31	38.26	72.54	29.16	361.83
Total	**998**	**6,957.41**	**316.69**	**615.32**	**257.35**	**3,959.16**
By sector						
1. Industry	409	2,891.81	164.47	275.33	144.72	1,745.62
2. Energy	62	1,777.56	39.15	125.47	24.10	865.23
3. Construction	47	284.84	11.68	21.16	9.47	189.52
4. Services	464	1,921.01	96.88	184.69	75.25	1,103.47
5. Not classified	6	3.38	0.16	0.35	0.15	1.66
Total	**988**	**6,878.60**	**312.34**	**607.00**	**253.69**	**3,905.50**
By size (revenue)						
1. Small groups (<250mn)	418	137.01	4.00	7.09	3.68	39.68
2. Medium (250mn-1,5bn)	307	397.46	26.72	41.41	21.66	214.00
3. Large groups (>1,5bn)	259	6,237.66	272.09	544.36	219.47	3,559.46
Total	**984**	**6,772.13**	**302.81**	**592.86**	**244.81**	**3,813.14**

Source: ERICA 2016 static sample.
Note: The number of firms by country and by sector or by size are different : some double accounted groups belong to different countries but are in the same sector.

Chapter II shows how highly representative the ERICA database is for non-financial listed groups. Table 1 gives a breakdown of the 2016 ERICA 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): almost 51% in terms of the number of groups and between 68% and 75% in terms of other quantitative indicators (such as total assets and revenue). With regard to size, for all variables analysed in this chapter (assets, revenue, EBIT, EBITDA, profit/loss) between 90% and 93% are reported by the large groups (those with revenue over € 1.5 billion). If we consider the main activity of the groups, the weight of the industrial groups is 42% in terms of total assets and rises to 57% when it comes to profit/loss before tax. The second biggest sector of activity in terms of total assets and EBIT is services; both services and industry cover 88% of the number of groups analysed.

III.1 EBIT: ALL SECTORS AND GROUP SIZES BUILD ON ACCELERATING GROWTH RATE

In 2015, the country, sector and size samples of European listed groups were given a partial negative bias by major impacts of single large groups in particular large energy groups and the Volkswagen Group. Aggregate figures for 2016 indicate a boost in EBIT for several group samples. However, there is a positive bias affecting part of the samples, mainly caused by the turnaround in the trend in EBIT in the energy sector.

TABLE 2 RATE OF CHANGE IN % (2015 - 2016)

		EBIT	EBIT adjusted*	*P/(L) before tax*	*Revenue*	Revenue adjusted*	*Total assets*
By	**country**						
	Austria	*64.3*	4.4	*128.1*	*-4.0*	-0.2	*0.4*
	Belgium	*4.1*	4.1	*-38.8*	*5.2*	5.2	*52.3*
	France	*29.8*	9.9	*26.8*	*-1.5*	0.5	*5.2*
	Germany	*23.5*	11.2	*16.6*	*-5.3*	0.0	*3.7*
	Greece	*27.7*	6.9	*91.9*	*-4.7*	-0.8	*-0.5*
	Italy	*31.4*	5.5	*78.9*	*-4.4*	2.8	*1.9*
	Portugal	*-18.1*	-32.9	*-13.8*	*-6.1*	-2.2	*-0.3*
	Spain	*35.0*	23.2	*60.2*	*-2.4*	1.1	*1.3*
	Total	***25.9***		***24.9***	***-3.2***		***5.4***
By	**sector**						
	1. Industry	*16.6*	7.8	*12.9*	*0.7*	0.6	*11.8*
	2. Energy	*191.0*		*287.9*	*-16.1*		*-2.9*
	3. Construction	*5.2*		*25.7*	*-2.0*		*4.2*
	4. Services	*15.6*		*19.6*	*1.5*		*4.7*
	Total	***26.0***		***25.0***	***-3.2***		***5.4***
By	**size (revenue)**						
	1. Small groups (<250mln)	*-25.7*		*-21.3*	*0.5*		*24.9*
	2. Medium (250mln-1,5bn)	*15.8*		*23.5*	*-1.5*		*0.0*
	3. Large groups (>1,5bn)	*28.1*	10.5	*26.3*	*-3.4*	0.9	*5.4*
	Total	***26.0***		***25.0***	***-3.2***		***5.4***
Total adjusted*		**10.4**	**10.4**	**10.8**	**0.7**	**0.7**	

Source: ERICA 2016 sliding sample.
* excluding large energy groups in country samples and in sample large groups; excluding outlier (Volkswagen AG) in country sample Germany, sector industry and large groups.

Adjusted figures for 2015 showed an increase in EBIT by 6.8%, which was outperformed in 2016 by a rise of 10.4% in adjusted EBIT. Hence, European listed groups have been following a positive trend in EBIT for the last three years with a steadily increasing growth rate. The energy sector has come under heavy pressure in recent years (falling oil/gas prices) leading to a deep crisis in the sector with systemic effects[3]. EBIT bottomed out in 2015, with impairments at a peak, but showed some signs of recovery in 2016. Though still confronted with declining revenues (-16.1%) aggregate EBIT almost tripled, taking into account the low level of 2015. However, the EBITDA estimate reveals the ongoing pressure in the sector[4]. All other sectors recorded a similar upward trend too, particularly the services sector (+15.6%) followed by the industry sector (adjusted by outlier Volkswagen: +7.8%). Regarding

[3] E.g. demerger of Uniper-group from EON Group in Germany – see also chapter IV.I Equity
[4] See chapter III.2 EBITDA (measure of a company's operating cash flow)

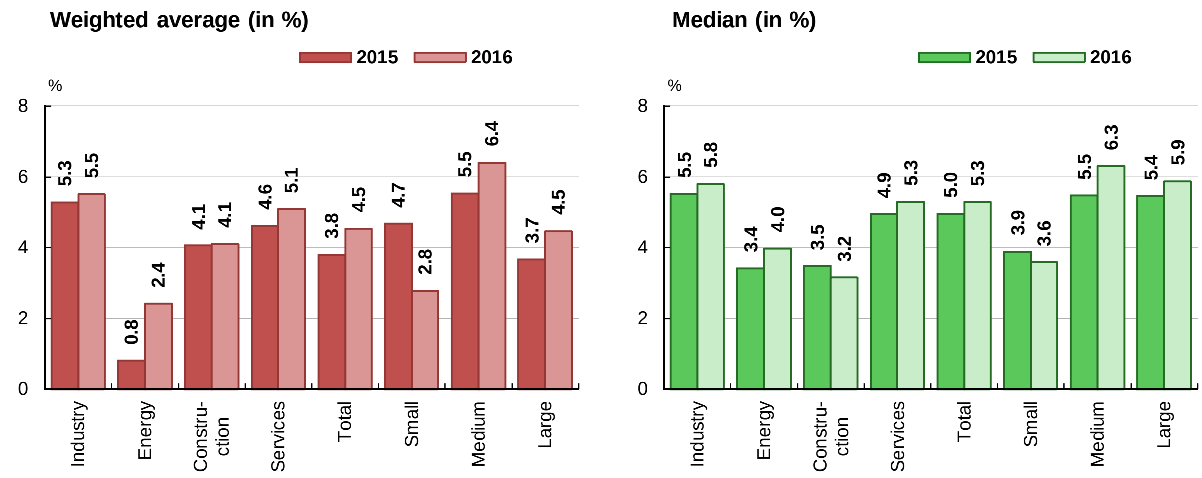
group size, medium-sized and large groups recorded an important increase, although the growth rate of large groups came down from 26.9% to 10.5% referring to adjusted EBIT. By contrast, the EBIT figures for small groups declined notably by 25.7%.

In 2016, aggregate figures for countries with a large share of energy groups in their sliding sample (sectoral breakdown visible in chart 3), especially Austria, France, Greece and Italy, were influenced positively by the recovery that has begun in this sector (double-digit growth rates). Excluding the large energy groups from the country samples, all countries – except for Portugal – still experience growth in their aggregate EBIT level, up from 4.1% (Belgium) to 23.2% (Spain). The boost in the country sample for Spain is mainly attributed to the services sector (+34.6%; Telefónica Group accounted for about half of this increase). The German group sample was rather biased by the Volkswagen Group than by large energy groups (German energy-providers were still suffering from the nuclear phase-out). Excluding Volkswagen Group and the large energy groups from the sample, the aggregate EBIT for all German groups still achieved the second highest growth rate (+11.2%) in 2016. The sectors behind this rise were services (+32.9%; about half of this increase attributed to Telekom and Deutsche Post), and industry (+4%). The Portuguese country sample showed a decline in all sectors (even for energy) except for construction, but this sector was of minor relevance regarding the sample compilation.

In 2016, aggregate revenue of European listed groups decreased by 3.2% although turning to a slight gain of 0.7% when excluding large energy groups. The impact of the energy sector is relevant for the revenue development of several country samples as well as for the sample of large groups. The change in revenue for the sample of large groups for instance was up from -3.4% to +0.9%.

The profitability analysis is based on the ratio of EBIT to total assets. Considering the major impact of large energy groups the weighted average is biased for the energy sector as well as for the sample of large groups. Comparing the median against the weighted average, the impact of the Volkswagen Group does not bias the weighted average value of the industry sector particularly. Median values of the ratio represent the behaviour of the population, unaffected by the weight of large groups in terms of total assets.

CHART 5 EBIT RATIO – EBIT / TOTAL ASSETS



Source: ERICA 2016 sliding sample.

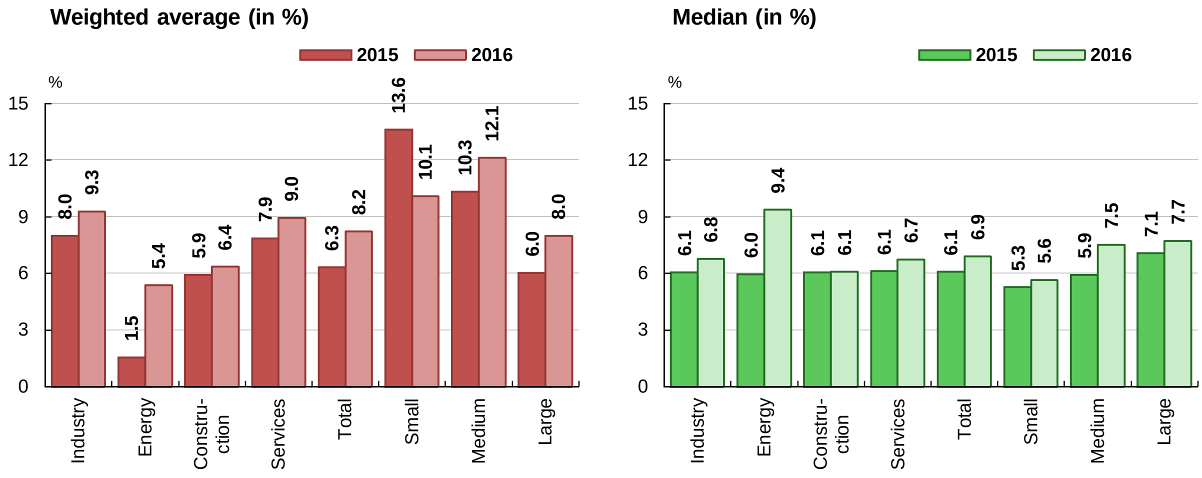
In 2016, the median profitability of listed European groups increased by 0.3 of a percentage point (pp) to 5.3%, showing a moderately higher growth rate than for 2015. All sectors, except the construction sector, were able to raise their median profitability, most notably the energy sector, albeit starting out from a low level. Small groups showed a loss in median profitability (-0.3 pp), which was even more pronounced in the weighted average (-1.9%), whereas the other size categories were able to increase their profitability.

The country-by-country breakdown of the median values (see Annex A) points to an increase for every country sample except for Portugal (-0.6 pp) and Italy (-0.1 pp). Greek and Spanish groups show the highest growth rate of +0.6 pp, although both start from a lower profitability level in comparison to the other ERICA countries. Moreover, the country comparison clearly shows the north-south divide in profitability among the listed groups. Whereas Austria, Belgium, France and Germany achieved a median profitability of more than 5%, the southern countries in the sample (Greece, Italy, Portugal and Spain) did not reach this level (maximum 4.6%). German groups still posted the highest median profitability (6.3%) in comparison to all other ERICA countries. They were able to correct their loss from last year due to an increase of 0.5 pp.

The total EBIT margin – measured by EBIT/revenue – increased by 0.8 pp in median terms. While the industry and the energy sectors faced a declining EBIT margin in 2015, they both posted a growth in 2016. The energy sector especially was up by 3.4 pp to 9.4% in median terms, as revenues were down further (see table 2). Every size group was able to increase or at least to hold its margins. However, large groups still have the highest margins (7.7%) in median terms in 2016.

The group samples for every country except Portugal showed an increase in median margins ranging from 0.2 pp (Italy) to 1.5 pp (Greece). The Portuguese groups margins shrank by 0.7 pp (to 7.5%). In 2016, Spanish groups were the most profitable (median EBIT margin exceeding 9%).

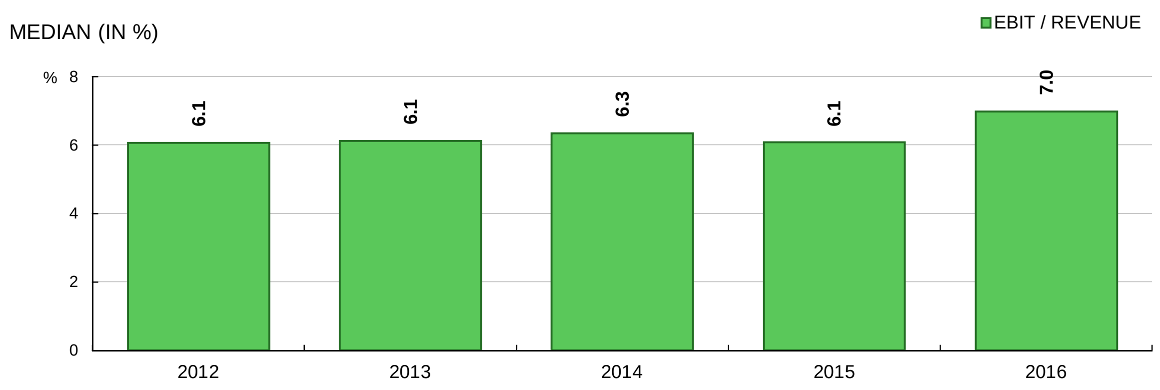
CHART 6 EBIT MARGIN – EBIT / REVENUE



Source: ERICA 2016 sliding sample.

Within a time series covering the last five years of a (smaller) fixed sample of groups, the 2016 median margin climbed to a level of 7%, the highest margin in this period. This upward movement was driven by the rise in EBIT in the energy sector (reinforced by the drop in revenue) as well as by the good performance of the industry and services sectors. Both industry and services posted the highest margins (respectively 6.8% and 7.0%) in 2016. By contrast, the construction sector has been showing a steadily decreasing EBIT margin for the last three years.

CHART 7 EBIT MARGIN: EBIT / REVENUE TOTAL PERIOD 2012-2016



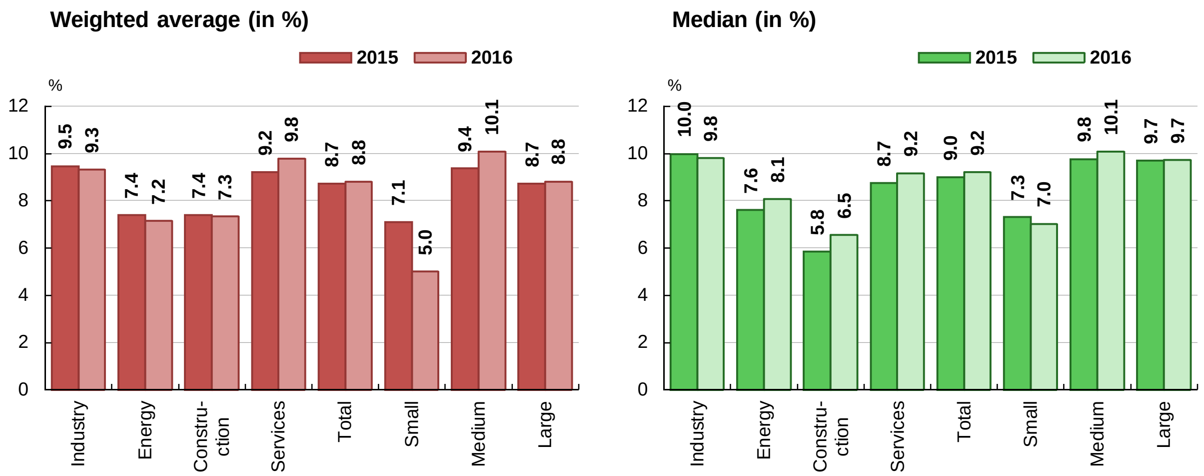
Source: ERICA 2016 fixed sample.

III.2 EBITDA: INCREASE FOR ALL SECTORS IN RELATION TO ASSETS

EBITDA is an approximate measure of a company's operating cash flow calculated by looking at earnings before the deduction of interest, taxes, depreciation and amortisation.

Aggregate EBITDA of listed European groups increased by 6.4% in 2016. The energy sector showed a decline of 5.9%, which stands in contrast to the much boosted EBIT figure (+191%). This reveals that the groups in this sector suffered again in comparison to 2015 when disregarding the impairments, which were on a peak in 2015. However, services and industry (adjusted by Volkswagen +4.9%) helped push up aggregate EBITDA.

CHART 8 EBITDA TO ASSETS RATIO



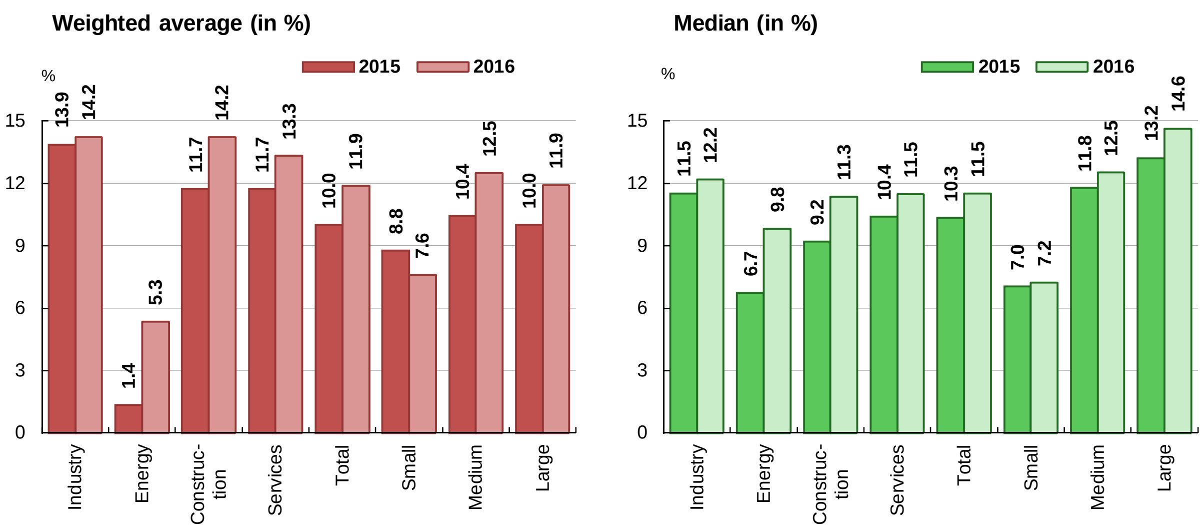
Source: ERICA 2016 sliding sample.

Chart 8 shows the ratio of EBITDA to assets. The weighted average ratio for all groups amounted to 8.8% in 2016 (+0.1 pp). The median EBITDA to assets ratio increased by 0.2 pp to 9.2% in total. The industry (-0.2 pp) and services sector (+0.5 pp) place the highest median ratio of 9.8% resp. 9.2%. The construction sector enjoyed the highest growth rate with 0.7 pp, but started from the lowest level of 5.8% in 2015. Medium sized groups showed the highest median value for the EBITDA-to-assets ratio of 10.1% in 2016.

The country breakdown reflects a slightly increase or at least a stable development for all country samples except for Italy (-0.1 pp). With 11.5%, German groups showed the highest median EBITDA-to-assets ratio in 2016, followed by Austrian groups with 10%.

III.3 PROFIT (LOSS) BEFORE TAX: IN LINE WITH EBIT EVOLUTION, FURTHER IMPROVEMENT RELATED TO EQUITY ON HIGHER RATE

CHART 9 RETURN ON EQUITY – PROFIT (LOSS) BEFORE TAX / EQUITY



Source: ERICA 2016 sliding sample.

Aggregate profit (loss) before tax showed a similar development as aggregate EBIT both before and after adjusting for large energy groups and outlier Volkswagen Group (see table 2). The adjusted value points to an increase of 10.8%, levelling the adjusted EBIT growth.

In relative terms (profits-to-equity ratio), the European groups generated profits amounting to 11.9% in weighted average terms, an improvement of 1.9 pp on the previous year, boosted by the impact of large energy groups. However, in median terms this trend is also perceptible. The European listed groups recorded an increase of 1.2 pp to 11.5%. Every sector and group size played a part in this upward trend, with the best performance coming from the energy sector and the large groups.

The country breakdown (see Annex A) points to a downward trend for the sample from Austria and Portugal (respectively -1.1 pp and -1 pp) in median terms. All other country samples show an increase. Starting out from the lowest point, Greek groups faced a growth rate of 1.5 pp to 4.8%. Spanish groups were able to grow at the highest rate of 2.3 pp to 10.8%. German groups are still generating the highest return on equity (14.9%) even on a remarkably higher level than in 2015.

IV. FINANCIAL POSITIONS UP SLIGHTLY OVERALL, BUT COMPLEX DEVELOPMENTS BY COUNTRY, SIZE AND SECTOR

The ERICA dataset provides information on listed corporate groups in continental Europe. For the year 2016, almost 1,000 groups are covered, giving a relevant assessment of the non-financial sector in continental Europe. Based on data for these enterprises with assets worth approximately € 6,800 billion, this chapter provides an analysis of the key financial structure items. As the 259 largest groups represent more than 92% of total assets in 2016, they dominate the aggregate figures.

TABLE 3 ERICA: OVERVIEW OF AGGREGATED FINANCIAL STRUCTURE VARIABLES 2016

In billion EUR	Number	Total Assets	Financial Debts	Cash	Equity
By country					
Austria	42	143.41	36.86	11.51	58.69
Belgium	80	363.54	149.67	18.23	122.37
France	300	2514.39	657.94	222.83	866.24
Germany	211	2205.25	713.50	124.43	615.12
Greece	50	68.05	21.32	7.74	24.33
Italy	168	807.55	254.98	47.37	223.73
Portugal	37	101.91	41.13	6.23	31.30
Spain	110	753.31	277.28	50.49	234.65
Total	**998**	**6957.41**	**2152.69**	**488.82**	**2176.44**
By sector					
1. Industry	409	2891.81	911.31	207.19	991.74
2. Energy	62	1777.56	484.24	98.37	511.39
3. Construction	47	284.84	90.62	35.07	66.04
4. Services	464	1921.01	649.53	141.81	578.54
5. Not classified	6	3.38	1.09	0.26	1.44
Total	**988**	**6878.60**	**2136.79**	**482.70**	**2149.15**
By size (revenue)					
I. Small groups (<250mln)	418	137.01	39.07	10.92	46.64
II. Medium (250mln-1,5bn)	307	397.46	134.43	33.70	163.66
III. Large groups (>1,5bn)	259	6237.66	1949.18	422.04	1895.25
Total	**984**	**6772.13**	**2122.68**	**466.65**	**2105.56**

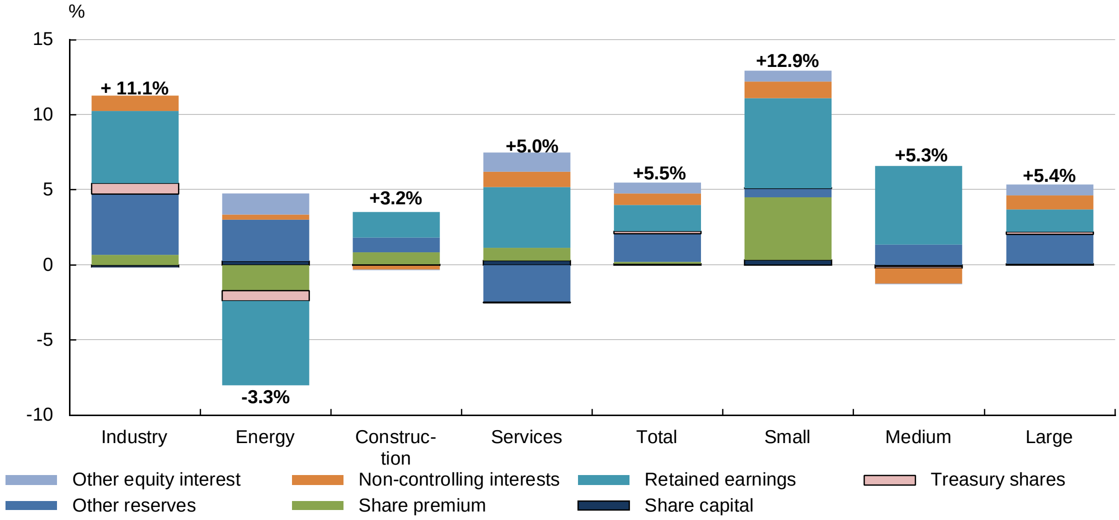
Source: ERICA 2016 static sample.
Note: The number of firms by country and by sector or by size are different: some double-counted groups belong to different countries but are in the same sector. Main figures for 2016 (filter used to avoid double sector, size and country counting) data in € billion.

IV.1 EQUITY: STABLE EQUITY RATIO AS EQUITY AND TOTAL ASSETS EQUALLY RISE

Moderate rise in equity in 2016: retained earnings and other reserves are main drivers

Chart 10 gives an overview of changes in equity in 2016. For different sectors and size classes, the growth contributions of seven classes of equity are presented.

CHART 10 CHANGE IN EQUITY 2015 – 2016 (in %)



Source: ERICA 2016 sliding sample.

At 5.5%, total equity growth was more solid compared to 2015 (2.8%). French and Belgian groups alone contributed more than 60% to the total change. The main drivers among the components were retained earnings followed by other reserves.

Industry, the most significant sector, had the strongest increase of all sectors with 11.1% in total. For that reason, almost 80% of total growth came from industry. This increase was mainly led by the Belgian brewery Anheuser-Bush InBev with € 43 billion in additional reserves resulting from the merger with SABMiller. That is a 1.6 percentage point contribution to total growth. Also, the stable global economic conditions in the industry sector propped up reserves. The German automotive industry made a particularly strong contribution. So, there was a sound expansion of retained earnings in the services sector.

In contrast, the energy sector recorded a decline in equity. The fall in retained earnings and share premiums indicates the difficulties the energy sector was confronted with. In Germany, the energy-providing groups were still suffering from the nuclear phase-out. This led to efforts of more than € 14 billion in 2016. The German energy provider EON alone contributed -0.9 of a percentage point to total equity growth – due to the demerger from Uniper group[5]. This is the strongest negative effect on total growth. However, there was also the French energy provider ENGIE with a substantial decline in retained earnings.

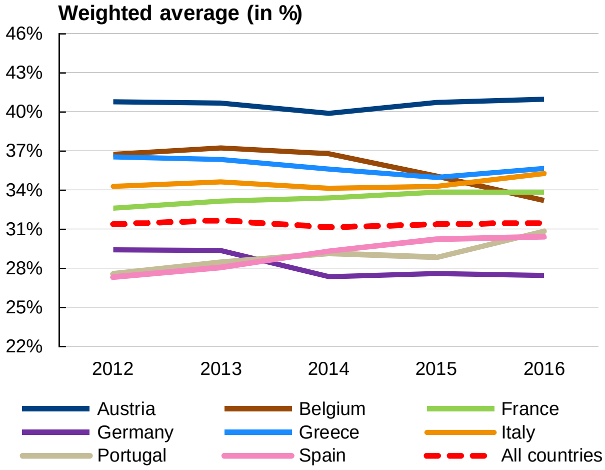
[5] The subsidiary Uniper was not profitable enough to remain in the stricken E.ON group. This demerger was mainly caused by falling wholesale energy prices and the downward movement in oil and gas prices.

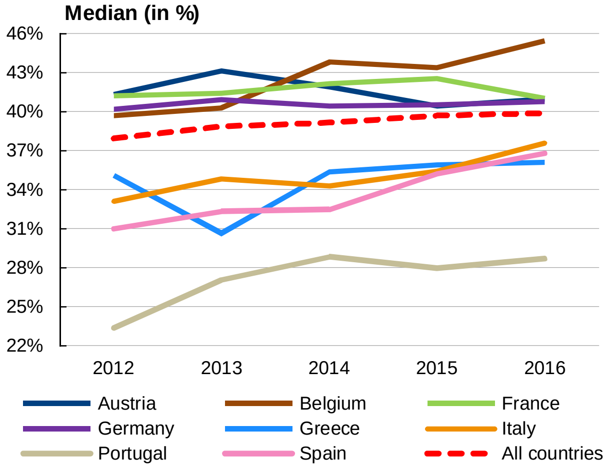
It was primarily small-sized groups that raised their reserves considerably. Medium-sized ones scaled back their non-controlling interests, while primarily large ones were negatively affected by energy sector developments. One noteworthy fact is that small groups raised their share premium more extensively than others. This is due to the fact that small groups are more often forced to issue shares. Moreover, it is a matter of the listing process itself.

Weighted average equity ratio has remained generally stable over the last five years, but median value rising gradually

Based on a fixed sample of 677 groups, chart 11 reveals that the weighted average equity ratio remained relatively stable between 31% and 32% over the period 2012-2016. The median equity ratio, on the other hand, climbed from 37.9% in 2012 to 39.9% in 2016. At a more detailed level by country, trends in the weighted average equity ratio are more clear-cut. The most pronounced movement was observed for Belgian groups whose weighted average equity ratio tumbled from 36.9% in 2014 to 33.2% in 2016. In 2016, aggregate total assets were boosted by the merger of Anheuser-Busch InBev with SABMiller. In 2015 too, the acquisition of Cytec by Solvay pushed aggregate total assets up. This was reinforced by dividends distributed by Anheuser-Busch InBev largely exceeding total comprehensive income. The 2016 aggregate trend for Belgian groups has been offset by the upward trend for Portuguese, Italian and Greek groups in particular. The Portuguese climb was due to the equity increase at Energias de Portugal, resulting from high total comprehensive income and the disposal of several non-controlling interests. The weighted average equity ratios for German[6] and Austrian groups remained the lowest and highest respectively. Only Spanish groups showed an exclusively positive evolution in both the weighted average and the median during the period under review. The median clearly reveals a north-south divide, with higher than aggregate values for the northern countries and lower than aggregate values for the southern countries.

CHART 11 WEIGHTED AVERAGE AND MEDIAN EQUITY RATIO PER COUNTRY





Source: ERICA 2016 fixed sample.

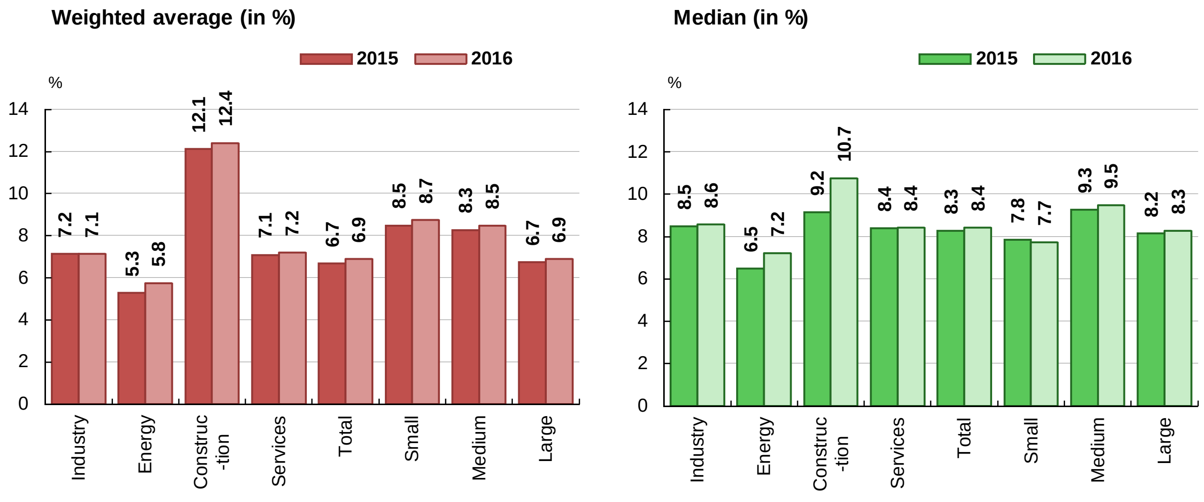
[6] The reason why German groups have a low ratio in comparison to most of the other countries is because the aggregate is driven by the automotive industry. Since all automotive companies own financial subsidiaries, their equity ratio is considerably lower than most of the other German groups' equity ratios.

IV.2 CASH AND CASH EQUIVALENTS SOAR

Increase in cash ratio in 2016

For all companies, management of cash is crucial. It is needed for debt-servicing and is essential to prevent payment defaults.

CHART 12 CASH AND CASH EQUIVALENTS / TOTAL ASSETS



Source: ERICA 2016 sliding sample.

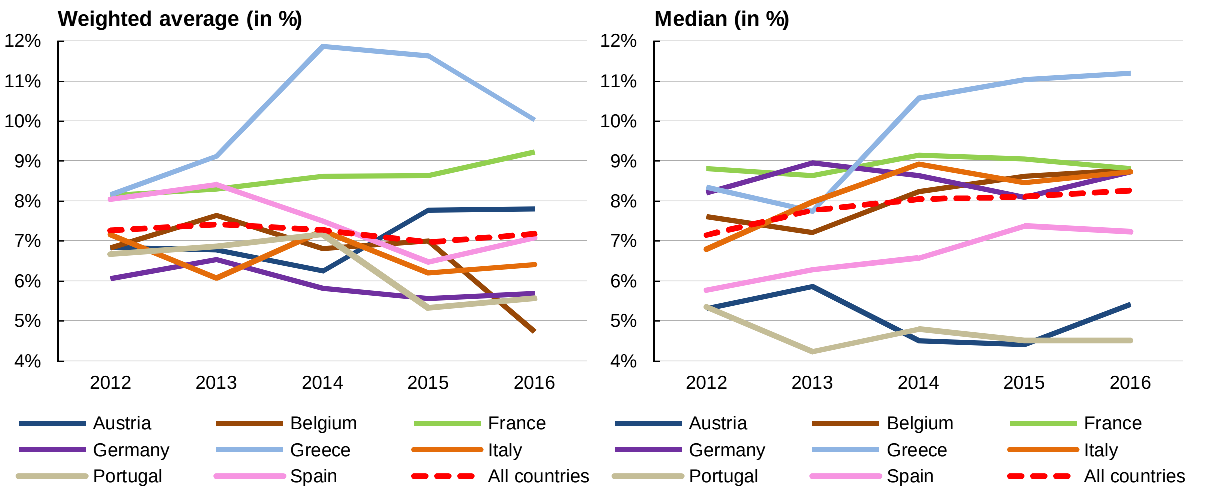
In 2016, the weighted average as well as the median of the total cash ratio grew by about 0.1 - 0.2 of a percentage point. The increase in the weighted average was mainly driven by French groups, followed by German and Spanish groups.

In the energy sector, besides the positive growth in cash and cash equivalents, the change was also induced by the decline in total assets. For groups from the construction sector, the situation was similar. The growth in aggregate cash and cash equivalents in the construction sector was negative, while the decline in total assets was stronger.

The average weight of cash slowly returns to the level before the 2015 dip, whereas the median has increased continuously since 2012

The evolution of the relative importance of cash and cash equivalents by country over the last five years has been analysed by both weighted means and median values of a fixed sample of 677 groups. As shown in chart 13, Greek groups have the highest weighted average liquidity ratio over the entire period, despite a considerable drop in 2016 (from 11.6% to 10%). This drop originated from a significant reduction in cash and cash equivalents at Hellenic Petroleum, mainly driven by an increase in working capital, capital expenditure, repayments of borrowings and interest paid. The weighted average liquidity ratio for Belgian groups slumped even more sharply (from 6.8% to 4.6%), as a result of which the weight of cash held by Belgian groups in 2016 became the lowest among the eight countries under review. In this case, the trend was driven by the boost in total assets following the Anheuser-Busch–SABMiller merger. In fact, Belgian and Greek groups were the only ones presenting a downward trend at aggregate level in 2016, but this trend is not observed in the median figures. The medians reveal a comparably very low level of cash in Portuguese and Austrian groups. Over the last five years, both the weighted average and median liquidity ratios for French groups turn out to be the least volatile.

CHART 13 WEIGHTED AVERAGE AND MEDIAN LIQUIDITY RATIO PER COUNTRY



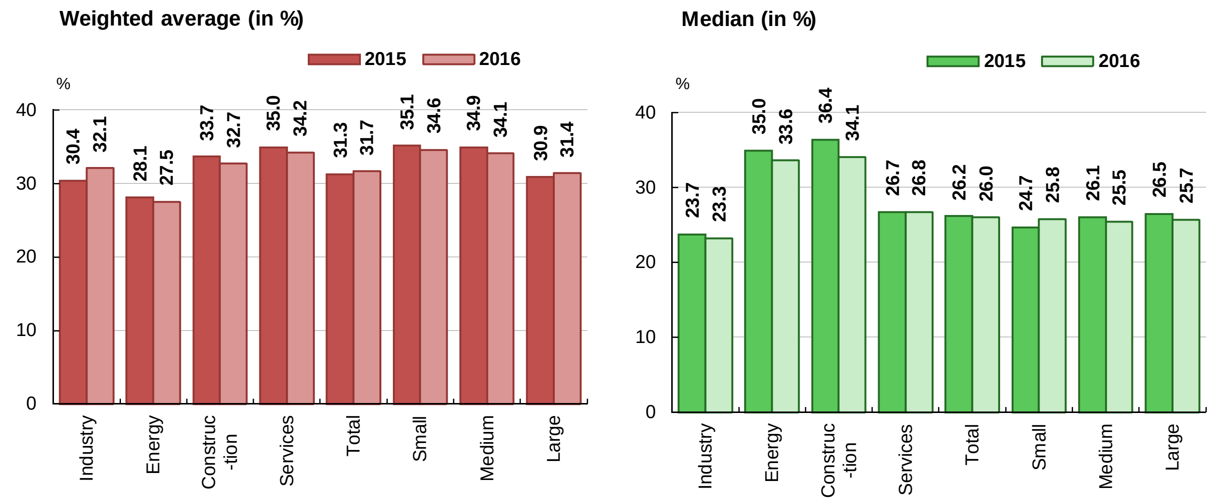
Source: ERICA 2016 fixed sample.

IV.3 MODERATE INCREASE IN FINANCIAL DEBT, BUT LARGELY STABLE RATE OF INDEBTEDNESS

Divergent financial debt developments across sectors

Financial debt indicates the use of credit to finance operations and investment. It is an important source of external finance, but not the only one. Large groups in particular obtain funds from other sources.

CHART 14 FINANCIAL DEBT / TOTAL ASSETS



Source: ERICA 2016 sliding sample.

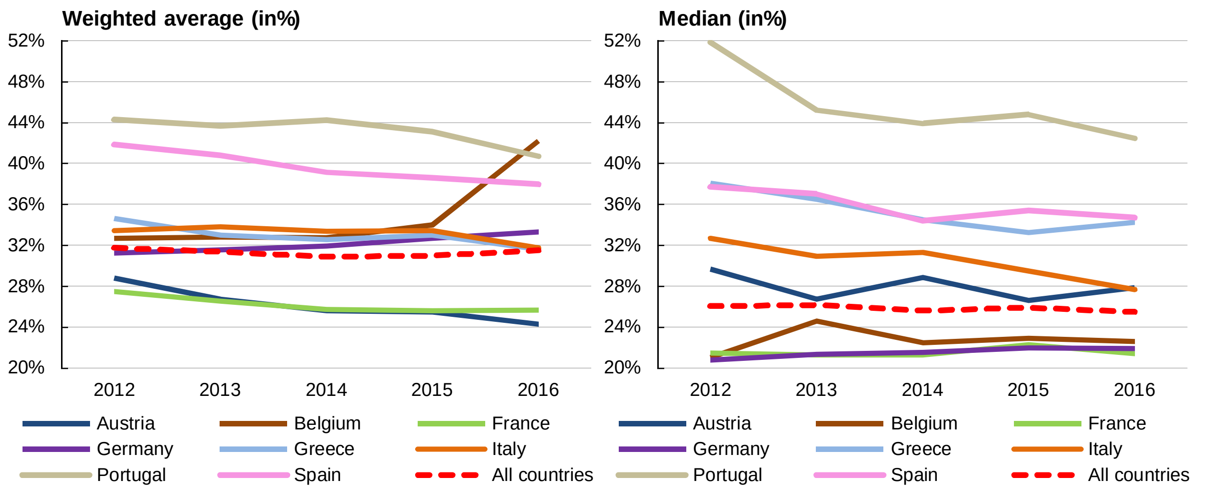
Focused on the soaring aggregate, a scattered picture emerges. Based on a purely country-by-country view, only Belgium, France and Germany made positive contributions to total growth in aggregate financial debt. Some big groups from the industry sector reported a rise in the scale of financial debt. The Belgian Anheuser-Bush InBev group was almost solely responsible for the total aggregate growth, the aggregate industry growth as well as the aggregate growth of large groups.

However, the mainstream companies tended to move in the opposite direction. The median fell by about 0.2 percentage point to 26%. With the exception of services and small-sized groups, a limited financial deleveraging process is visible.

After the minor dip in 2014-2015, the weighted average debt ratio climbs back towards the 2012 level, while median figures show an opposite trend

Based on a fixed sample of 677 groups, the weighted average share of financial debt in the balance sheet total rose from 31.1% in 2015 to 31.6% in 2016. Chart 15 reveals the impressive surge at Belgian group level, as a result of which Belgian groups overtook Portuguese groups in the ranking for highest aggregate debt ratio at country level. Again, the merger between Anheuser-Busch InBev and SABMiller was the explanatory factor. Anheuser-Busch InBev financed the cash consideration of this transaction mainly with excess liquidity resulting from bonds issues in 2016 and to a lesser extent with an amount drawn down under a facilities agreement. Germany and, to a lesser extent, France are the only other countries whose groups presented a rise in the weighted average debt ratio. Portuguese, Spanish, Italian and Greek – the traditionally relatively more indebted – groups, all scaled down their weighted average financial debt ratio in 2016, as well as Austrian groups whose average weight of financial debt was already low. As for the equity ratio, the median figures again mark a north-south divide. Austria is an exception in the sense that it is the only northern country whose median is higher than the overall median.

CHART 15 WEIGHTED AVERAGE AND MEDIAN DEBT RATIO PER COUNTRY



Source: ERICA 2016 fixed sample.

V. FINANCIAL DEBT: RELEVANCE OF FINANCIAL MARKETS AS A FUNDING SOURCE

In 2016, there were almost 1,000 non-financial European listed groups available in the ERICA database. Nearly all of them had financial debt in their liabilities (98%). This chapter provides an analysis of financial debt through the decomposition of its components: (1) financial institutions, (2) bond issues, (3) finance lease and (4) other interest borrowings, and the cost of debt.

TABLE 4 ERICA: OVERVIEW OF FINANCIAL DEBT AGGREGGATED VARIABLES 2016

In € billion	Number	of which financial debt	Financial debt	Financial institutions	Bonds issued	Finance lease	Other interest borrowings	Interest expense
By country								
Austria	42	42	36.86	20.03	14.54	0.51	1.78	1.32
Belgium	80	78	149.67	18.13	124.02	1.07	6.46	5.24
France	300	297	657.94	168.92	391.60	14.70	82.71	18.32
Germany	211	200	713.50	137.81	432.03	13.84	129.82	16.68
Greece	50	46	21.32	7.29	12.36	0.26	1.41	1.04
Italy	168	166	254.98	109.12	122.68	3.42	19.76	7.59
Portugal	37	37	41.13	14.22	23.91	0.57	2.42	1.70
Spain	110	110	277.28	107.18	127.05	12.43	30.62	11.17
Total	998	976	2,152.69	582.69	1,248.21	46.80	274.98	63.07
By sector								
1. Industry	409	402	911.31	188.63	556.79	4.95	160.94	20.48
2. Energy	62	60	484.24	104.42	324.43	6.49	48.90	16.89
3. Construction	47	47	90.62	43.17	41.24	1.35	4.86	3.84
4. Services	464	451	649.53	243.03	320.30	33.51	52.69	21.10
5. Not Classified	6	6	1.09	0.49	0.45	0.00	0.15	0.03
Total	988	966	2,136.79	579.74	1,243.21	46.31	267.53	62.34
By size (revenue)								
1. Small groups (<250mln)	418	402	39.07	26.68	8.09	1.44	2.86	1.32
2. Medium (250mln-1,5bn)	307	301	134.43	77.75	43.60	2.45	10.64	4.70
3. Large groups (>1,5bn)	259	259	1,949.18	471.64	1,183.05	41.87	252.62	55.89
Total	984	962	2,122.68	576.06	1,234.73	45.76	266.12	61.91

Source: ERICA 2016 static sample.
Note: The number of groups by country and by sector or by size are different: some double-counted groups belong to different countries but are in the same sector. Main figures for 2016 (filter used to avoid double sector, size and country counting) data in € billion.

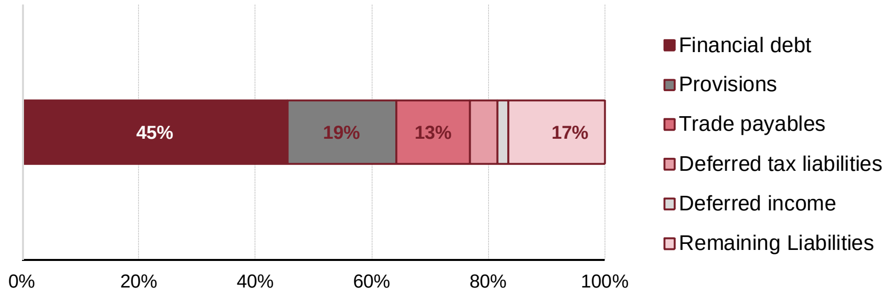
V.1 FINANCIAL DEBT STRUCTURE: ALMOST ALL THE GROUPS WITH BANK LOANS BUT FINANCIAL MARKETS AS THE MOST IMPORTANT SOURCE OF FUNDING

In 2016, financial debt was the main component of the liabilities representing 45% of the total (chart 16).

Borrowings from financial institutions were the most common way for groups to access external interest-earning funds for all countries, sectors and size (chart 17). At least 9 out of 10 groups in each country had loans from financial institutions, except in Belgium, Greece and Germany where the ratio was between 7 and 8 out of 10.

The use of financial leases to acquire goods and services was an option for almost half of the European groups, with an exceptionally high percentage in Portugal where the ratio reached 83%. This financing source was more relevant for the construction sector and large groups. Portuguese groups from the construction sector have high amounts of finance leases that relate to buildings and basic equipment. Leases on transport equipment are also common among Portuguese groups.

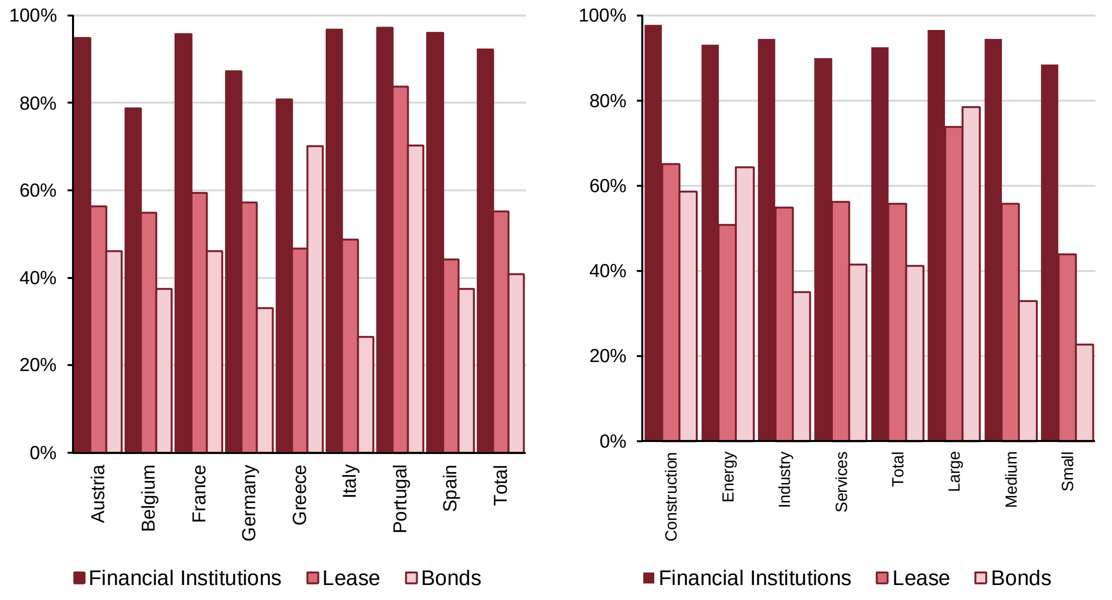
CHART 16 LIABILITIES STRUCTURE



Source: ERICA 2016 static sample.

Financial markets provided funding via bonds for around 70% of Greek and Portuguese listed groups in 2016, a significant percentage when compared with the other countries (all bellow 50%). The lowest percentages were from Italian and German groups, for which roughly a one-quarter and one-third, respectively, chose that kind of funding. Financing through bonds is positively correlated with the size. By sector, energy and construction groups stand out, with around 60% of groups getting funds from financial markets.

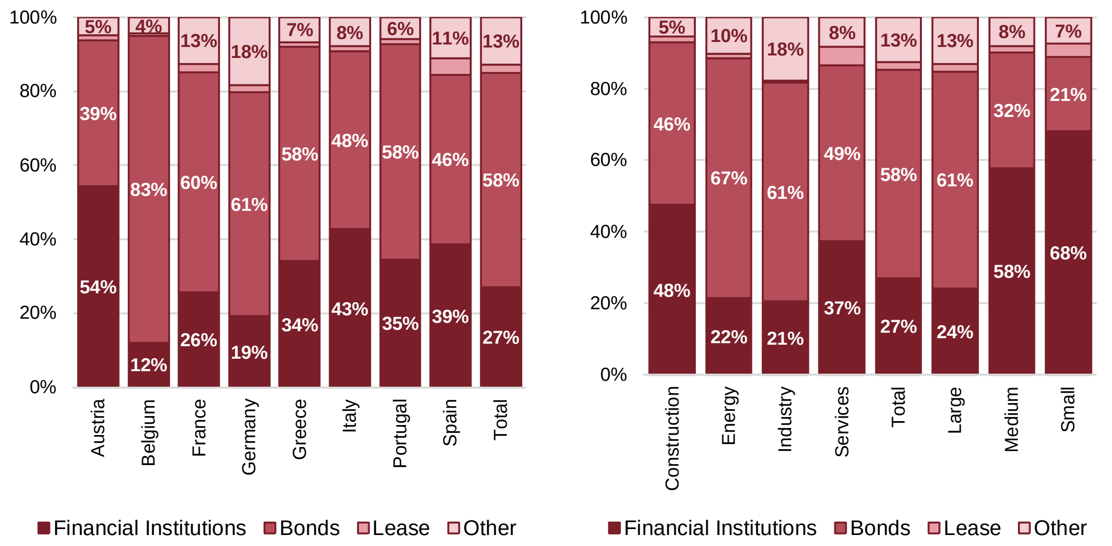
CHART 17 FINANCIAL DEBT STRUCTURE (Number of groups)



Source: ERICA 2016 static sample.

This picture changes when we move from the number of groups to total amounts (chart 18). Although, financial markets are not so crucial when measured in number of groups, in total amounts, financial markets were predominant in debt financing of European listed groups. We can find evidence for all countries here, except for Austria. The importance of financial markets ranged from 83% in Belgium to 39% in Austria, where bank lending was the major source of debt funding (53%). By sector and size, the majority of debt funding in energy, industry and for large groups came from financial markets (above 60%). It is also worth noting that energy and industry had a similar distribution of the amount borrowed from the different sources of funding.

CHART 18 FINANCIAL DEBT STRUCTURE (Total amounts)



Source: ERICA 2016 static sample.

Austria was followed by Italy and Spain in the percentage of bank loans (43% and 35% of total financial debt, respectively), whereas Belgian groups only relied on financial institutions for 12% of their external funding needs. Broken down by sector, construction had the most debts with the banking system. This is also a characteristic of medium-sized and small groups.

Other sources of financing were quite significant for German, French and Spanish groups with values above 10%.

V.2 COST OF DEBT BY COUNTRY: DOWN IN ALMOST ALL COUNTRIES, BUT AT A DIFFERENT PACE

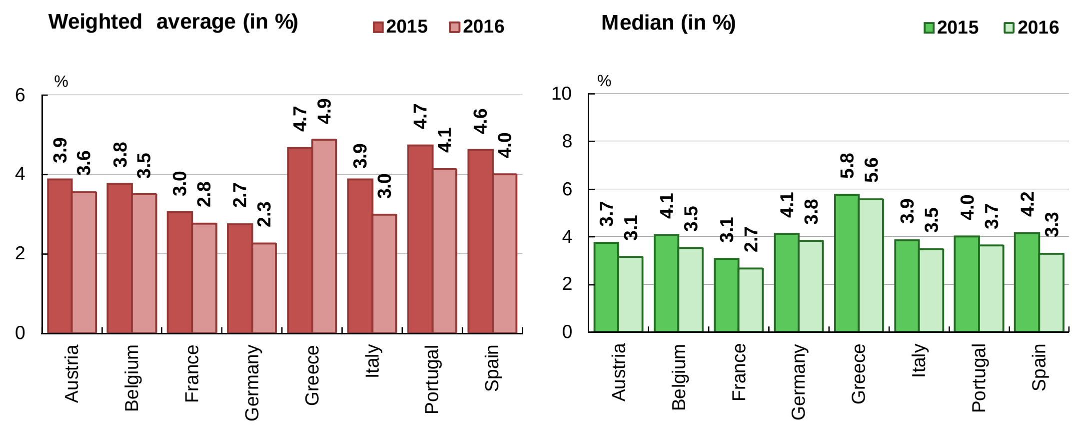
For the purposes of this study, we consider the cost of debt as the total interest expense divided by financial debt. This is an accounting concept and consequently it reacts differenty from the market interest rate. A group can, for example, change its cost of debt just by changing the composition of its financial debt, even if there was no change in the interest rate to pay for each type for financing.

Apart from Greece, all countries reduced the cost of debt compared with 2015 but at a different pace (chart 19). Although there are differences between countries, German and French groups had the lowest financial debt charge, lower than the weighted average of the total sample (total in chart 20).

Furthermore, Greek listed groups paid 4.9%, more than twice as much as its German counterparts which had a rate of 2.3%. The difference between these two countries widened from 2015 to 2016 due to both an increase of 0.2 pp for Greek groups and a decrease of 0.4 pp on the German groups' financial debt charge. The major improvement on the cost of debt on 2016 was due to Italian groups (-0.9 pp) followed by Spanish and Portuguese groups (-0.6 pp), albeit starting from a higher level than the others.

The median of cost of debt declined for all countries, including Greece. However, the German groups presented the second highest median and the French groups the lowest. The strongest reduction in the median was observed among Spanish groups while the weakest was observed for Greek groups.

CHART 19 COST OF DEBT BY COUNTRY



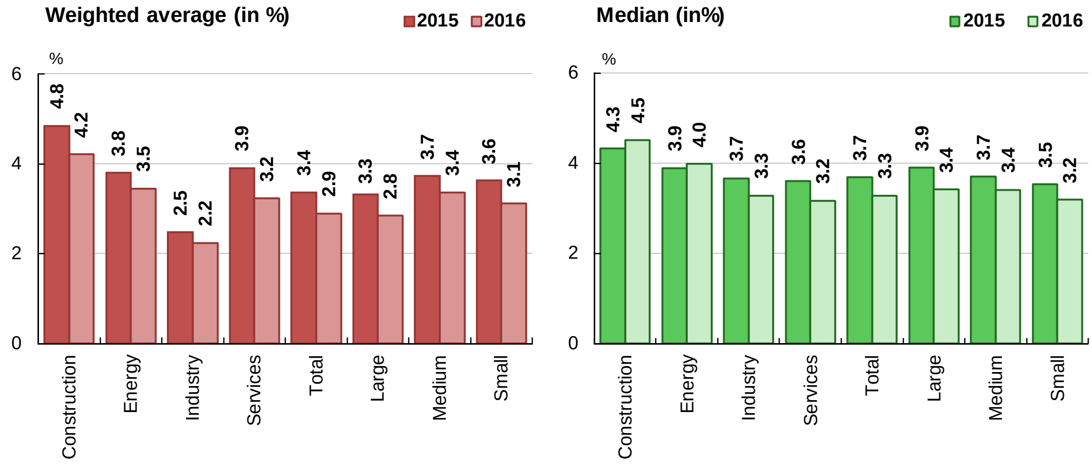
Source: ERICA 2016 sliding sample.

The cost of debt for the groups surveyed is influenced by the sectoral concentration of each country and especially by the interest rate in the countries where their subsidiaries, and therefore their investment, are located, in order to reduce other risks, such as exchange rate risk.

V.3 COST OF DEBT BY SECTOR AND SIZE: CONSTRUCTION AND SMALL AND MEDIUM GROUPS WITH HIGHER COST OF DEBT

By sector, we observe that the construction sector had the highest financial debt charge (4.2%) in 2016 and industry the lowest (2.2%). Although the cost of debt came down for all sectors and sizes (chart 20). The biggest reduction was posted by the services sector, down 0.7 pp to 3.2% on 2016. By size, the large groups enjoyed the lowest cost of debt whereas the medium-sized groups bore the highest.

CHART 20 COST OF DEBT BY SIZE AND SECTOR

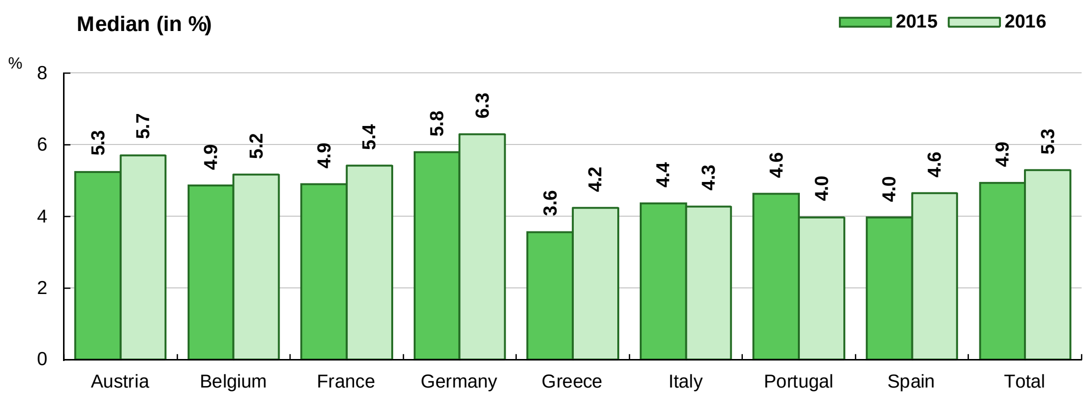


Source: ERICA 2016 sliding sample.

Analysing the cost of debt through the median, the construction and energy sectors reported an increase. The services sector registered the smallest median cost of debt for both 2015 and 2016. But between the different size classes, the median cost of debt was quite similar.

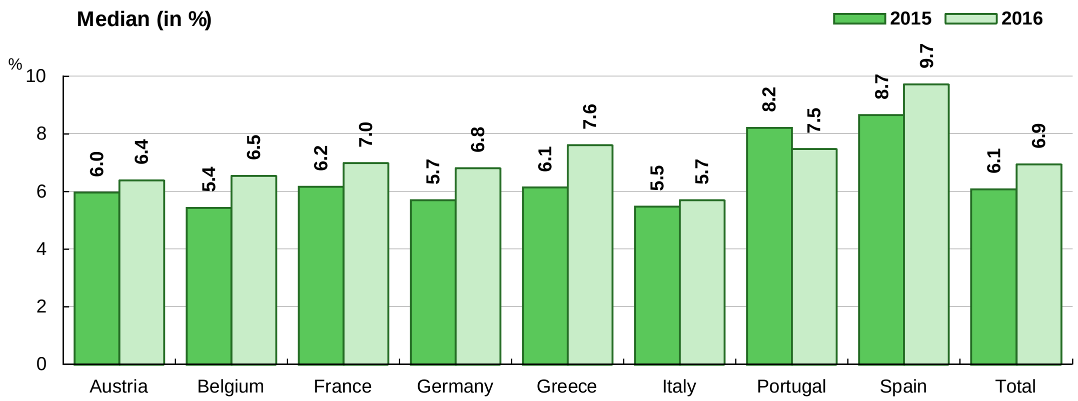
ANNEX A: PROFITABILITY RATIOS IN THE MEDIAN ON COUNTRY LEVEL

1. EBIT RATIO – EBIT / ASSETS TOTAL



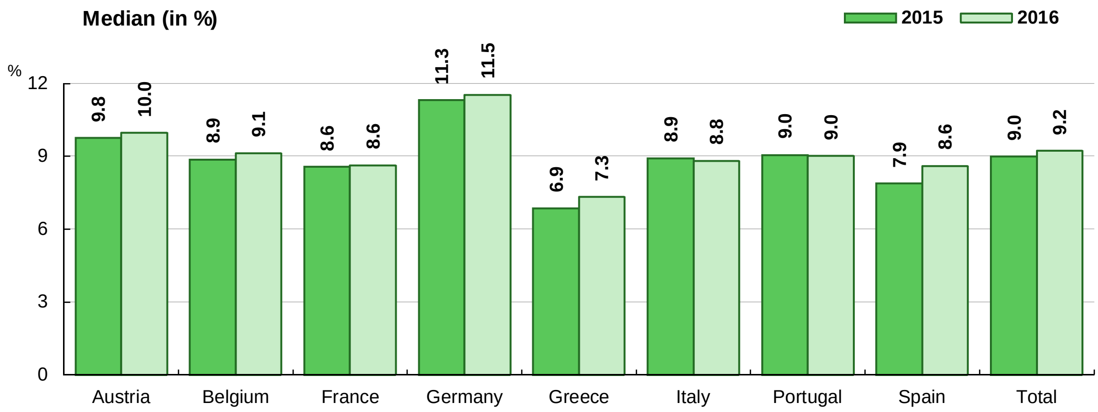
Source: ERICA 2016 sliding sample.

2. MARGIN – EBIT / REVENUE



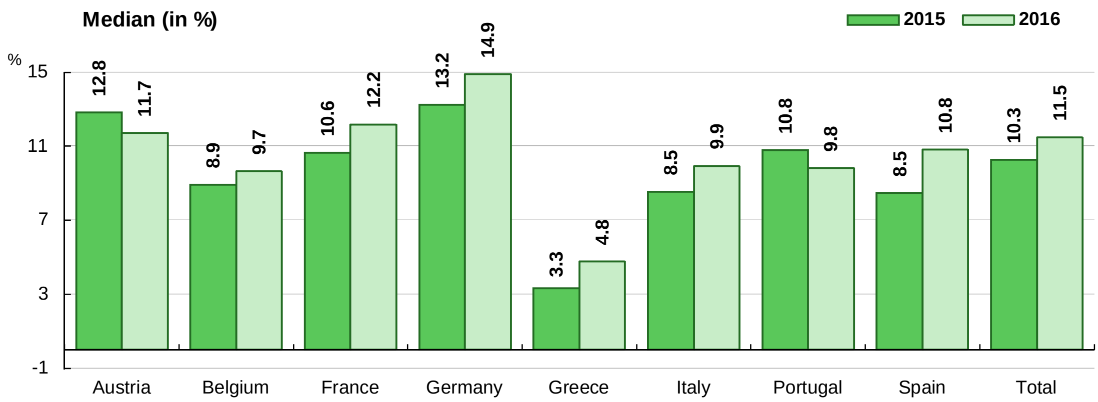
Source: ERICA 2016 sliding sample.

3. EBITDA TO ASSETS RATIO



Source: ERICA 2016 sliding sample.

4. RETURN ON EQUITY – PROFIT (LOSS) BEFORE TAX / EQUITY



Source: ERICA 2016 sliding sample.