European non-financial listed groups: Analysis of 2017 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 2017 DATA

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
Javier González
Gonzalez.sainza@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
Joana Irle
joana.irle@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 is 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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STATISTICAL ANNEXES (these annexes are available in a separate document)

I. EUROPEAN NON-FINANCIAL LISTED GROUPS: INTRODUCTION AND MAIN FINDINGS FROM 2017 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 2017 database (almost 1,000 listed non-financial groups, with a total of approximately € 7,000 billion in assets and € 4,000 billion in revenue), with the most relevant facts for the year 2017, regarding the profitability and financial structure of European listed non-financial groups, as well as the financial debt structure and cost of debt. The document is supplemented by statistical annexes and other documents, known as "the ERICA series", which provide deeper analysis of consolidated groups on a variety of themes (including cash flow statement analysis, employment and the impact of IFRS 16), some of which are currently under development.

This report uses three different samples[2]:

- A *static* sample: This sample includes all groups for which data is collected in ERICA for the year 2017. The static sample consists of 954 groups.
- A *sliding* sample: This sample is obtained by selecting all groups for which data is collected in ERICA for both 2016 and 2017. The sliding sample encompasses 876 groups. Groups that underwent a change in the 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 2013-2017 period. The fixed sample captures 695 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 the 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)[3]. 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).

The main findings of the study with 2017 data are:

1 Operating results and profitability both improve further in 2017.

European listed groups confirmed the positive trend in aggregate EBIT and profit before tax with a continued growth rate of 21.8% and 33.5% respectively. In contrast to previous years, aggregate revenue also rose by more than 5%. All these variables, in particular EBIT and profit before tax, have again been influenced significantly by large energy groups. Excluding these large energy groups, revenue, EBIT and profit before tax rose by 4.2%, 14.3% and 22.5% 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 2017, both in aggregate and median terms. In the (smaller) fixed sample covering the last five years, the total EBIT margin reaches its highest level in 2017 under the influence of all sectors except construction. The country comparison of the median EBIT ratio reveals a rise for every country except Belgium and France. German groups remain the most profitable of all ERICA countries, except in terms of EBIT margin. Greek groups recorded the highest improvement in all profitability measures except for the EBIT margin.

[2] Figures refer to the global samples.

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

2 Balance sheet positions evolve favourably in 2017 resulting in higher equity and cash ratios and a lower debt ratio.

Total equity grew at a faster pace than the previous year. The increase in equity was mainly led by changes in the scope of consolidation in the service sector, the German automotive industry and the overall rise in profitability which boosted retained earnings. Over the 2013-2017 period, the median equity ratio rose gradually, to a large extent driven by the southern countries and by the non-industrial sectors. Despite the fact that Greek, Portuguese and Italian groups showed the largest growth over the 5-year period, their median equity ratio remains significantly below the overall median.

The cash ratio also improved in 2017, both in aggregate and median terms. Over the last five years, median liquidity increased for all countries except Germany. The gradual rise in this ratio is mainly supported by French vehicle manufacturers, construction, energy and real estate groups.

Overall aggregate and median financial indebtedness decreased in 2017. Between 2013 and 2017, median debt ratios are highest among Portuguese groups – in spite of a marked decline – and lowest among German groups.

3 The majority of groups have bank loans, but bonds carry more aggregate weight. The cost of financial debt shows a downward trend in 2017.

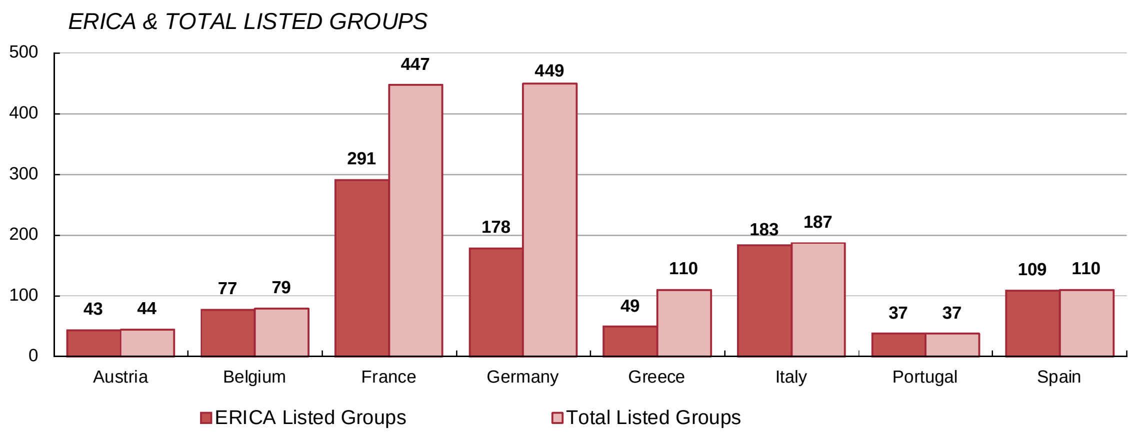
In terms of the number of groups, borrowing from financial institutions is the most common way for groups to access external financing. Financing through bonds is positively correlated with size: especially large groups make use of bond issuance to cover outgoing cash flows. Looking at the actual amounts, financial market funding via bonds is the main source of debt, except for Austrian and Greek groups.

In 2017, the weighted average cost of financial debt came down in all countries except Belgium and Italy. Greek groups experienced the strongest decline. Nevertheless, their cost of debt remains the highest, both in weighted average and median terms. The downward trend is also observed in all sectors and size classes, with the exception of the energy sector, as a result of which the energy sector caught up with the construction sector at the top of the debt charge rankings.

II. ERICA DATABASE: COVERAGE AND MAIN FIGURES

The coverage of the ERICA database in absolute terms comprises a number of listed groups studied for 2017, ranging from 37 real cases in Portugal and 43 in Austria to 183 in Italy and 291 in France.

CHART 1 LISTED GROUPS BY COUNTRY IN 2017 (absolute number)

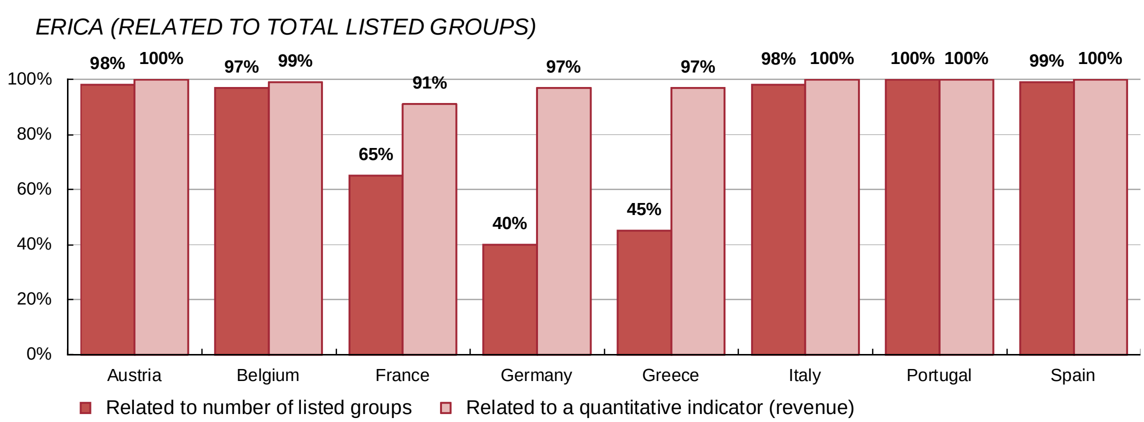


Source: ERICA 2017 and national databases.

The ERICA database's coverage in terms of a quantitative indicator (revenue) shows that the database is highly representative of the total population of listed European non-financial groups: coverage is very high for all countries, varying from 91% in France to 100% in Austria, Italy, Portugal and Spain.

In relative terms, comparing the ERICA database with the total population of listed groups, the coverage rate varies from 40% of all listed groups in Germany and 45% in Greece to 100% in Portugal. These figures refer to the total sample, bearing in mind that a double accounting filtering process has been applied in the various analyses conducted in order to exclude country duplications.

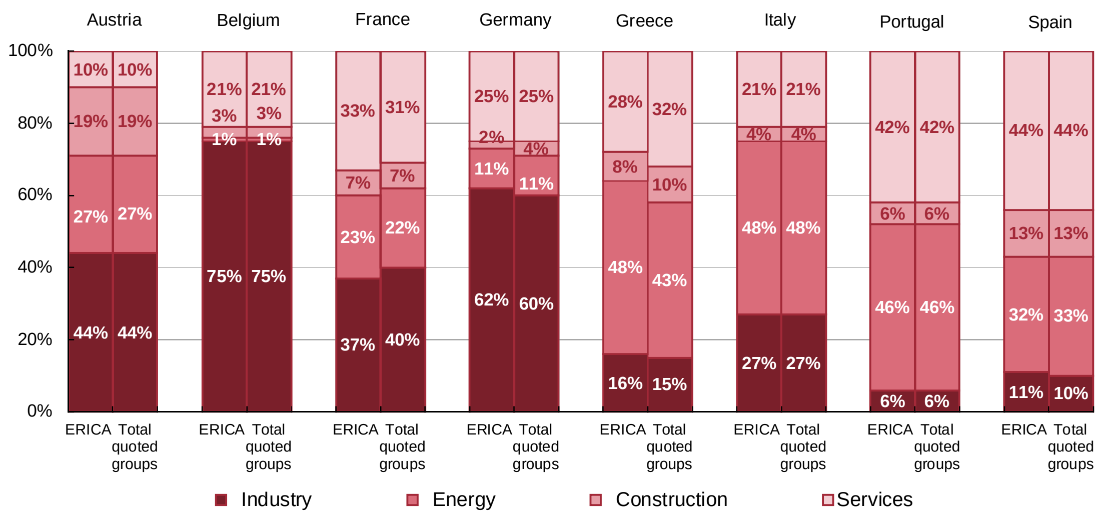
CHART 2 DATABASE COVERAGE IN 2017



Source: ERICA 2017 and national databases.

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

CHART 3 STRUCTURE BY COUNTRY AND SECTOR IN 2017 (based on revenue)



Source: ERICA 2017 and national databases.

III. PROFITABILITY: UPWARD TREND CONTINUES, BOOSTED BY ENERGY AND INDUSTRY

Profitability, along with the financial structure and cost of debt analysis set out in this document, is based on financial data for 2017, 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. The way in which samples are composed differs, depending on the purpose of the analysis.

TABLE 1 ERICA: OVERVIEW OF AGGREGATE PROFITABILITY VARIABLES IN 2017

In € billion	Number	Total assets	EBIT	EBITDA	P/(L) before tax	Revenue
By country						
Austria	43	139.35	7.45	14.65	7.55	94.29
Belgium	77	325.59	21.71	31.17	15.28	141.59
France	291	2,562.77	133.87	224.10	120.08	1,494.79
Germany	178	2,221.78	136.99	249.60	130.02	1,564.01
Greece	49	65.17	3.66	6.58	2.54	44.57
Italy	183	882.74	36.74	70.47	32.30	357.37
Portugal	37	97.23	5.68	10.32	3.85	67.45
Spain	109	763.46	41.40	76.89	40.48	395.20
Total	**967**	**7,058.09**	**387.51**	**683.78**	**352.09**	**4,159.27**
By sector						
1. Industry	409	2,915.26	185.20	306.16	175.22	1,826.97
2. Energy	58	1,669.32	68.79	142.96	59.81	875.74
3. Construction	48	320.68	12.96	22.80	11.28	211.84
4. Services	438	2,087.96	114.81	200.89	103.13	1,200.45
5. Not classified	7	3.52	0.13	0.33	-0.66	1.54
Total	**960**	**6,996.75**	**381.89**	**673.14**	**348.78**	**4,116.54**
By size (revenue)						
1. Small groups (<250mn)	390	108.86	4.20	6.84	3.20	37.17
2. Medium (250mn-1,5bn)	288	420.21	29.29	41.97	31.91	195.60
3. Large groups (>1,5bn)	276	6,340.64	344.30	616.72	308.62	3,785.42
Total	**954**	**6,869.72**	**377.79**	**665.53**	**343.73**	**4,018.19**

Source: ERICA 2017 static sample.
Note: The number of firms by country and by sector or by size differ: some double accounted groups belong to different countries but are in the same sector. Main figures for 2017 (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 2017 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): 49% in terms of the number of groups and between 68% and 74% in terms of other quantitative indicators (such as total assets and revenue). Regarding size, of all variables analysed in this chapter (assets, revenue, EBIT, EBITDA, profit/loss) between 89% and 94% 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, rising to 50% for profit/loss before tax. The second-biggest sector of activity for all variables is services (between 29% and 31%). Taken together, the services and industry sectors account for 88% of the number of groups analysed.

III.1 EBIT: ACCELERATING GROWTH RATE IN MOST COUNTRIES AND SECTORS

Aggregated figures for EBIT and Profit / Loss before tax show a sound increase in 2017, which has received an even greater boost from the continuing recovery of the energy sector. Several country samples of European listed groups were positively biased by the effects of large energy groups, due to the importance of this sector in the respective country data set (sectoral breakdown shown in Chart 3). The sample of large groups is affected accordingly. Table 2 presents both the total evolution of the group samples and the adjusted values, excluding the impact of large energy groups.

TABLE 2 RATE OF CHANGE IN 2016 – 2017 (%)

	EBIT	EBIT adjusted*	*P/(L) before tax*	P/(L) adjusted*	*Revenue*	Revenue adjusted*	*Total assets*
By country							
Austria	*47.5*	17.9	*62.6*	26.5	*6.9*	5.5	*0.2*
Belgium	*12.7*	12.7	*57.4*	57.4	*4.0*	4.0	*-10.4*
France	*15.0*	11.4	*20.6*	17.8	*7.9*	6.7	*5.2*
Germany	*38.5*	16.7	*54.8*	23.4	*2.9*	2.4	*0.5*
Greece	*12.3*	11.7	*11.5*	15.5	*8.7*	2.4	*-0.3*
Italy	*25.1*	2.8	*40.1*	4.1	*7.8*	1.8	*0.8*
Portugal	*15.4*	1.4	*20.5*	-2.8	*9.9*	4.7	*0.0*
Spain	*8.0*	10.1	*40.2*	41.8	*6.9*	3.9	*0.3*
Total	***22.5***		***37.5***		***5.7***		***1.6***
By sector							
1. Industry	*15.7*		*25.0*		*7.0*		*0.1*
2. Energy	*87.2*		*172.8*		*7.2*		*2.8*
3. Construction	*1.0*		*9.6*		*7.3*		*0.0*
4. Services	*12.4*		*25.4*		*2.4*		*0.0*
Total	***22.7***		***37.6***		***5.7***		***0.7***
By size (revenue)							
1. Small groups (<250mln)	*13.1*		*17.4*		*4.8*		*7.3*
2. Medium (250mln-1,5bn)	*11.0*		*16.1*		*4.2*		*7.4*
3. Large groups (>1,5bn)	*23.0*	11.2	*35.4*	18.4	*5.3*	3.6	*0.5*
Total	***21.8***		***33.5***		***5.2***		***1.0***
Total adjusted*		**12.2**		**22.5**		**4.2**	

Source: ERICA 2017 sliding sample.
* excluding EBIT increase of large energy groups.

The energy sector has come under heavy pressure in recent years (falling oil/gas prices) leading to a deep crisis in the sector. The first signs of recovery appeared in 2016 and continued in 2017, reflected by a high growth rate for EBIT and profit before tax, as well as an increase in revenue in 2017 (a change from 2016, when revenues were still falling). In total, large energy groups contributed about 10 percentage points (pp) to the 22.5% aggregated growth in EBIT (total by country).

Adjusted figures for 2017 (excluding large energy groups) show a sound (12.2%) rise in aggregated EBIT. In fact, European listed groups have been following a positive trend in EBIT for the last four years, with a steadily rising growth rate. The industry sector (+15.7%) and the service sector (+12.4%) recorded a similar upward trend, while the construction sector by contrast showed only a marginal rise in EBIT. Regarding group size, all samples recorded a sizeable increase, although the growth rate of large groups slipped from 23% to 11.2% owing to adjusted EBIT.

Aggregated EBIT figures of countries in which energy groups have a large share of their sliding sample – with the exception of Spanish groups – were influenced positively by the continuous recovery in this sector. The strongest impact has been on the samples of Austria, Germany, Italy and Portugal. German energy groups started their turnaround only in 2017 as 2016 figures were still weighed down by the systemic effects of the crises (including the impact of the nuclear phase-out). In the case of Spanish energy groups however, an increase in the cost of energy production due to first semester adverse weather conditions (less hydroelectric energy production) and strong impairments in foreign gas and renewable business units (USA and Canada) led to a decreasing evolution in EBIT.
Excluding large energy groups from the country samples, all countries posted increases ranging from 1.4% (Portugal) to 17.9% (Austria). The industry sector contributed strongly to the increases in the adjusted country samples of Austria, Germany (including a sizeable surplus at Volkswagen) and Belgium (Anheuser-Busch InBev being the main driver) with double-digit growth rates. The industry sector was also the strongest contributor in the country samples of Greece and France but at lower, single-digit growth rates. Portugal and Italy recorded only small-scale increases of 1.4% and 2.8% respectively.

Aggregated profit before tax showed a remarkable rise, both before and after adjusting for large energy groups. The adjusted value showed a notable rise of 22.5%, considerably outplacing the 12.2% increase in EBIT. This development was strongly influenced by a much-improved financial result at ten large groups, including inter alia ABENGOA, SAFRAN, Anheuser-Busch InBev and Deutsche Telekom. Reduced financing costs, other than interest expenses, plus better results at the P/L level from investments in related parties, were strong drivers of the financial result. In case of the Spanish group ABENGOA, however, an extraordinary increase of finance income, due to debt restructuring and write-off, led to the boost in profit before tax.

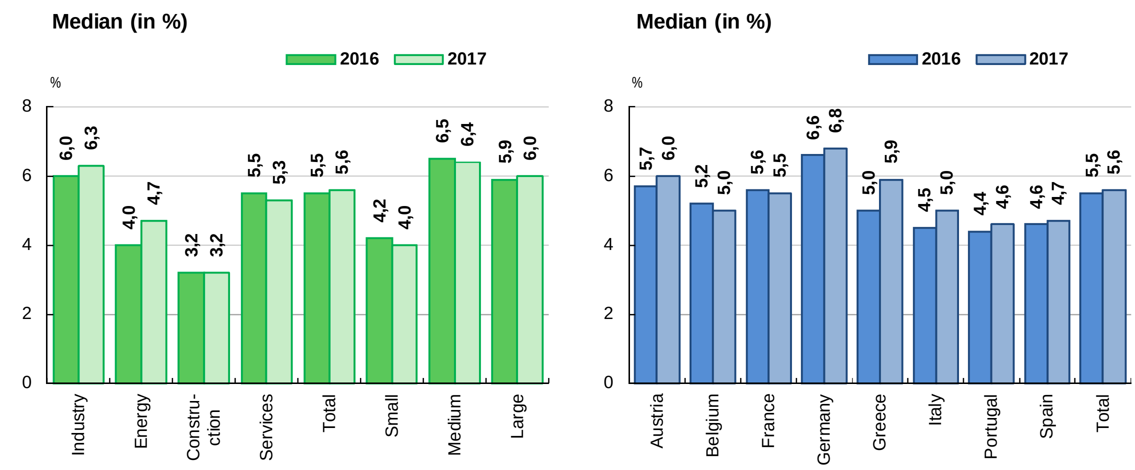
In 2017, the aggregated revenue of European listed groups was up by 5.7% (by 4.2% when large energy groups are excluded). Viewed against the marginal growth of 2016 (adjusted +0.7%) these figures underline the dynamic development achieved by European listed groups in 2017. The impact of the energy sector on the revenue development of country samples was very significant for Greece, Italy, Portugal and Spain but of only minor relevance for Austria, Belgium, France and Germany. Among the sectors, industry and construction recorded the highest gains.

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 several countries and large groups (see Annex A). However, the median values of the ratio represent the behaviour of the population, unaffected by the weight of large groups. The following charts therefore refer to the evolution of the unbiased median ratio.

Considering the already strong position in 2016, the median profitability of listed European groups remained largely stable at 5.6%. However, the industry and energy sectors showed a higher rate of improvement (+0.3pp and +0.7pp respectively).

The country-by-country breakdown indicates an increase for every country except Belgium (-0.2 pp) and France (-0.1 pp). For both 2016 and 2017, Greek groups show the highest growth rate (+0.9 pp) of all ERICA countries. Having been at the tail-end only two years previously, Greece has since then not only overtaken the other southern ERICA countries but also achieved the third highest profitability (5.9%) behind Germany (6.8%) and Austria (6.0%).

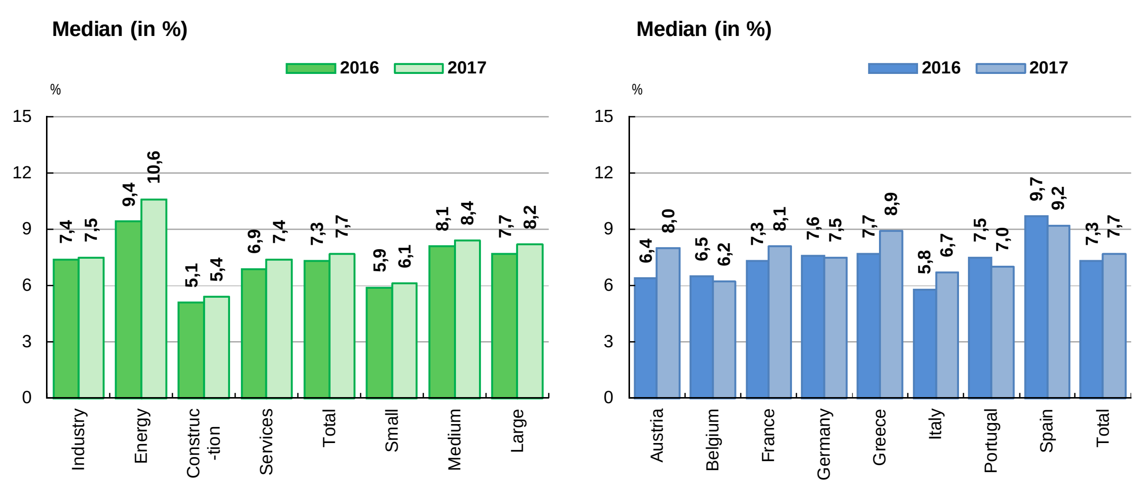
CHART 4 EBIT RATIO – EBIT / TOTAL ASSETS (2016-2017)



Source: ERICA 2017 sliding sample.

The total EBIT margin – measured as EBIT/revenue – rose by 0.4 pp in median terms to reach 7.7% in 2017. All sectors and every size group recorded at least a slight improvement in 2017, with the energy sector in the lead (+1.2 pp), followed by the service sector (+0.5 pp). On a size comparison, the highest margin was achieved by medium sized groups, unlike in 2016, when large groups were in front. The group samples for Austria, Germany, France, Greece and Italy were able to increase or at least almost hold their margins. Austrian groups achieved the highest growth rate in terms of EBIT margin, up by 1.6 pp to 8.0%. Greek groups followed, gaining 1.2 pp to reach 8.9%, the second-highest margin on a country comparison. Conversely, Belgian, Portuguese and Spanish groups saw declining EBIT margins. In spite of the decline, Spanish groups still posted the highest margin.

CHART 5 EBIT MARGIN – EBIT / REVENUE (2016-2017)



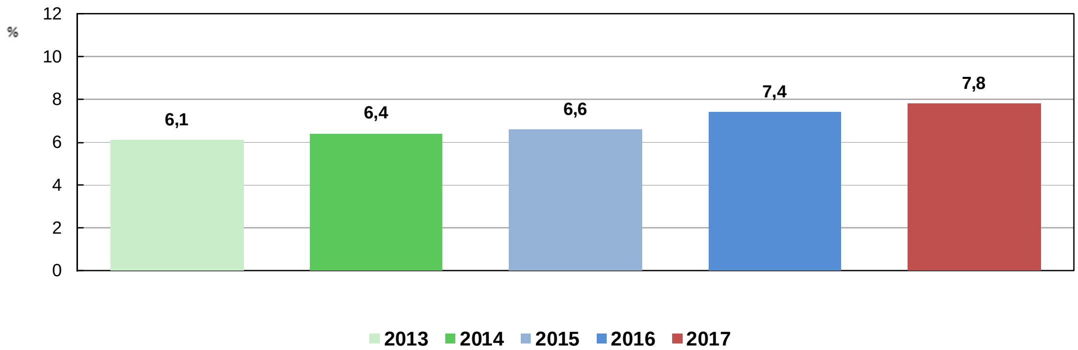
Source: ERICA 2017 sliding sample.

On a time scale covering the last five years of a (smaller) fixed sample of groups, the 2017 median margin climbed to an all-time high of 7.9% over the period. This rise was driven by the improvement in

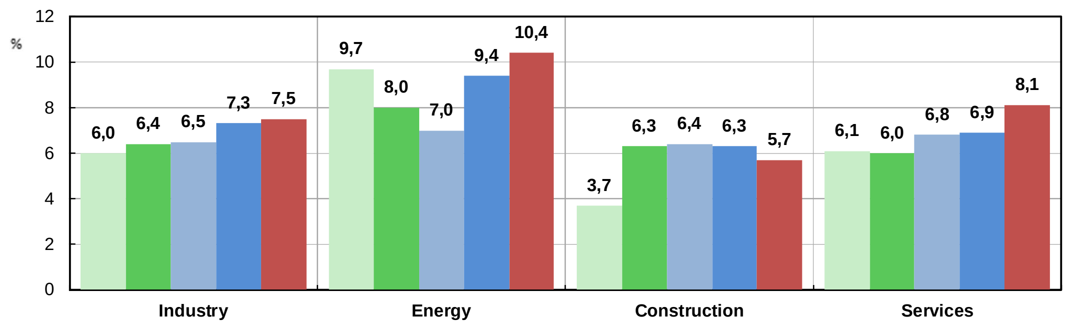
EBIT in the energy sector, plus a good performance by the industry and service sectors. The energy and service sectors posted the highest margins (10.4% and. 8.2% respectively) in 2017. By contrast, the construction sector has seen shrinking margins over the last three years.

CHART 6 EBIT MARGIN – EBIT / REVENUE (2013-2017)

MEDIAN (IN %)



MEDIAN (IN %)



Source: ERICA 2017 fixed sample.

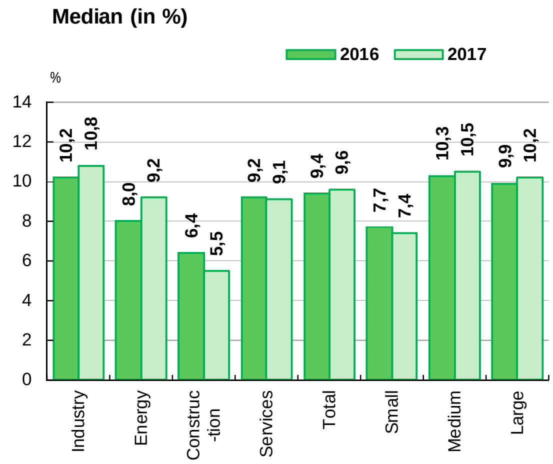
III.2 EBITDA: GROWTH IN ALL SECTORS EXCEPT CONSTRUCTION

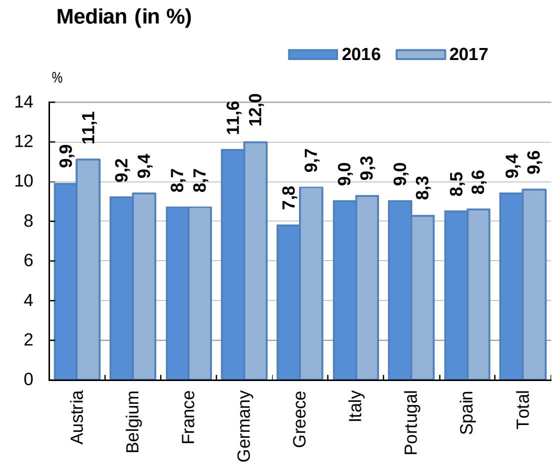
EBITDA is an approximate measure of a company's operating cash flow calculated by looking at earnings before interest, taxes, depreciation and amortisation are deducted.

The aggregate EBITDA of listed European groups was up by 12.3% in 2017. The energy sector helped push up aggregate EBITDA by 3.5%, after making a negative contribution in 2016, a clear indication once again of the recovery achieved by this sector. However, the strongest contribution to aggregate EBITDA came from industry and services (12.7% and 9.9% respectively).

Chart 7 shows the ratio of EBITDA to assets. The median EBITDA-to-assets ratio increased by 0.2 pp to 9.6%, with the energy (+1.2 pp) and industry (+0.6 pp) sectors enjoying the highest growth rates. However, the construction sector suffered a further decline in 2017 (-0.9 pp), posting the lowest ratio on a sector comparison.

CHART 7 EBITDA TO ASSETS RATIO (2016-2017)



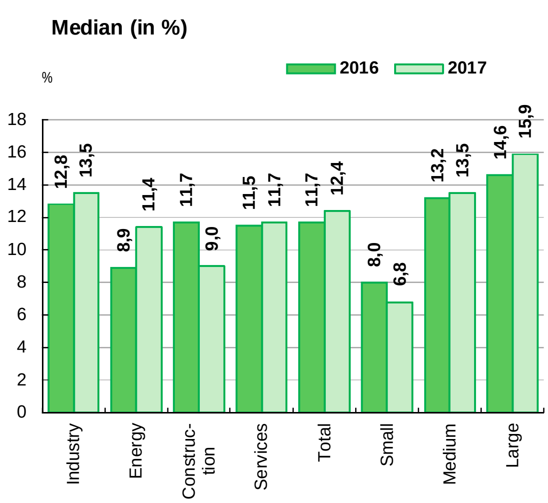


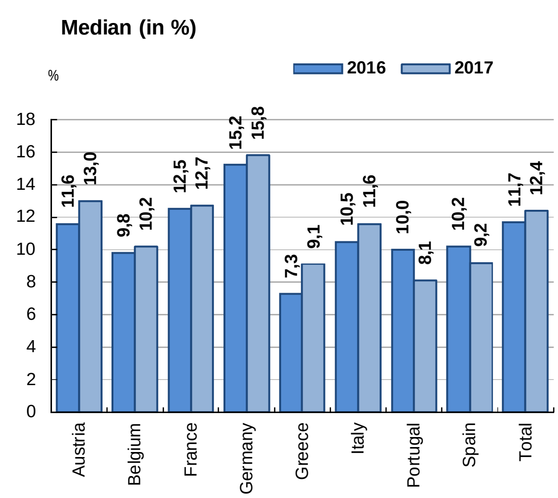
Source: ERICA 2017 sliding sample.

The country breakdown shows a notable increase for the Greek (+1.9 pp) and Austrian (+1.2 pp) samples, Greek groups having started out from the back of the pack. As in 2016, German groups showed the highest median EBITDA-to-assets ratio (12%), followed by Austrian groups with 11.1%. Portuguese groups posted a decline of 0.7 pp and consequently slipped to the bottom of the ranking.

III.3 REMARKABLE RISE IN PROFIT (LOSS) BEFORE TAX LEADS TO HIGHER RETURN ON EQUITY

CHART 8 RETURN ON EQUITY – PROFIT (LOSS) BEFORE TAX / EQUITY (2016-2017)





Source: ERICA 2017 sliding sample.

Aggregate profit (loss) before tax showed a considerably higher growth rate than aggregated EBIT both before and after adjusting for large energy groups (see Table 2). This development was mainly influenced by the improved financial results of single large groups.
Looking at pre-tax profit in relation to equity, the median return on equity ratio posted by European listed groups in 2017 worked out at 12.4%, a 0.7 pp improvement on the previous year. This development was mainly driven by the energy and industry sectors, but apart from small groups and construction, every sector and group size contributed to the upward movement. On a size comparison, small groups show the lowest values on all profitability measures. In fact, their distance from the medium and large groups as regards return on equity is strikingly high.

The country breakdown reveals a downward trend for the Portuguese and Spanish samples (-1.9 pp and -1 pp respectively) in median terms. All other country samples show an increase. Starting out from the bottom of the list, Greek groups were able to grow at the highest rate of all country groups (+1.8 pp) to reach 9.1%. Austrian groups followed, achieving a growth rate of 1.4 pp to reach 13.0%, the second highest ratio in the country comparisons. Meanwhile, German groups are still generating the highest return on equity (15.8%), even at a considerably higher level than in 2016.

IV. FINANCIAL POSITION SLIGHTLY IMPROVED OVERALL, BUT DIFFERENTIATED BY COUNTRY, SIZE AND SECTOR

The ERICA dataset provides information on listed corporate groups in continental Europe. For the year 2017, just under 1,000 groups are covered, thus providing a highly relevant assessment of the non-financial sector in continental Europe. Based on data for non-financial enterprises with assets worth approximately € 7 billion, this chapter provides an analysis of the key financial structure items. As the 276 largest groups account for more than 92% of total assets in 2017, they dominate the aggregate figures.

TABLE 3 OVERVIEW OF AGGREGATED FINANCIAL STRUCTURE POSITIONS IN 2017

In € billion	Number	Total Assets	Financial Debts	Cash & cash equivalents	Equity
By country					
Austria	43	139.35	33.98	13.28	59.81
Belgium	77	325.59	130.40	17.98	113.18
France	291	2,562.77	654.87	232.87	943.58
Germany	178	2,221.78	719.41	127.55	713.05
Greece	49	65.17	21.08	7.24	23.78
Italy	183	882.74	286.48	56.67	245.73
Portugal	37	97.23	36.40	6.87	31.84
Spain	109	763.46	277.07	60.43	248.36
Total	**967**	**7,058.09**	**2,159.69**	**522.90**	**2,379.32**
By sector					
1. Industry	409	2,915.26	924,82	220.49	1,053.96
2. Energy	58	1,669.32	452.45	109.30	525.97
3. Construction	48	320.68	101.18	39.99	78.74
4. Services	438	2,087.96	665.32	148.49	698.18
5. Not classified	7	3.52	1.02	0.30	1.76
Total	**960**	**6,996.75**	**2,144.79**	**518.57**	**2,358.60**
By size (revenue)					
1. Small groups (<250mln)	390	108.86	32.49	13.07	56.19
2. Medium (250mln-1,5bn)	288	420.21	151.49	36.62	172.01
3. Large groups (>1,5bn)	276	6,340.64	1,944.48	452.38	2,077.01
Total	**954**	**6,869.72**	**2,128.45**	**502.07**	**2,305.21**

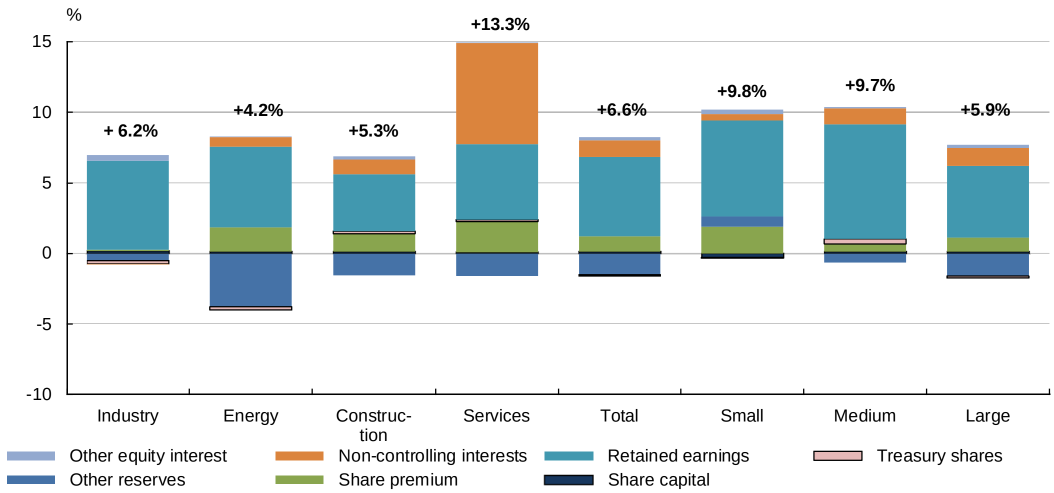
Source: ERICA 2017 static sample.
Note: The number of firms by country and by sector or by size differ: some double-counted groups belong to different countries but are in the same sector. Main figures for 2017 (filter used to avoid double-counting in each sector, size and country), with data in € billion.

IV.1 BROAD EQUITY GROWTH

Moderate rise in equity in 2017: retained earnings the main driver

Chart 9 gives an overview of changes in equity in 2017. For the various sectors and size classes, the growth contributions of seven classes of equity are presented.

CHART 9 CONTRIBUTIONS TO EQUITY GROWTH IN TOTAL, BY SECTOR AND BY SIZE IN 2017



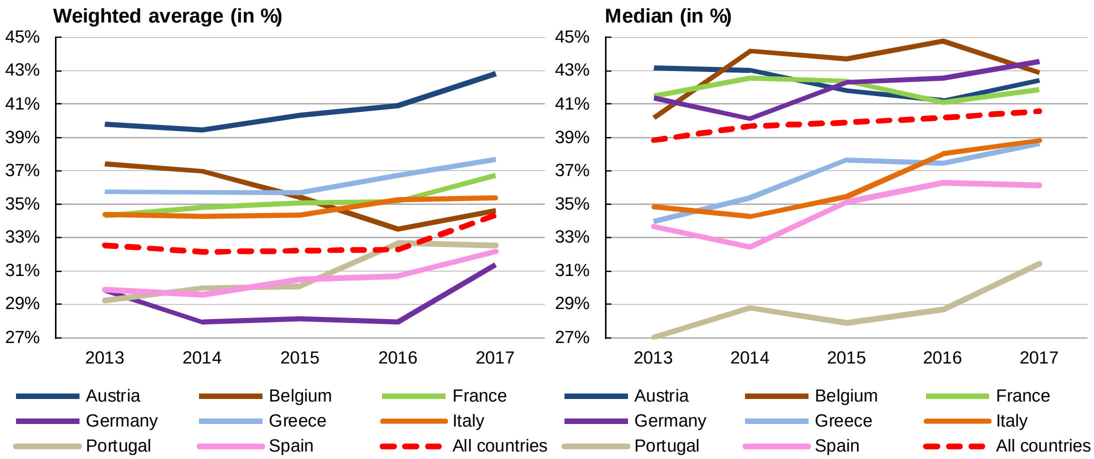
Source: ERICA 2017 sliding sample.

Besides the idiosyncratic effects mentioned above, the dynamic overall demand in both industrialised countries and developing countries led to a significant rise in profitability and, in parallel, to soaring retained earnings. The German automotive industry made a particularly strong contribution. Conversely, Belgian brewery Anheuser-Busch InBev made a negative contribution to the development due to the rising nominal exchange rate of the euro and some significant divestments following the SABMiller acquisition. Despite posting a higher share of equity within European groups, it was not the industry sector but the service sector that made the major impact on total aggregated equity. The main driver was the French Financiere De L Odet group, which contributed one percentage point of the total aggregated growth and accounted for almost the entire contribution to the increase in the non-controlling interest figure in the service sector, the result of fully consolidating Vivendi. In the energy sector, most of the growth was due to capital increases and foreign currency translations from the French Electricité de France and Total groups as well as from extraordinary revenues arising from an approximately € 5 billion reimbursement of nuclear fuel tax in the German energy sector.

Median equity ratio up over the last five years, to a large extent driven by the southern countries and the non-industrial sectors

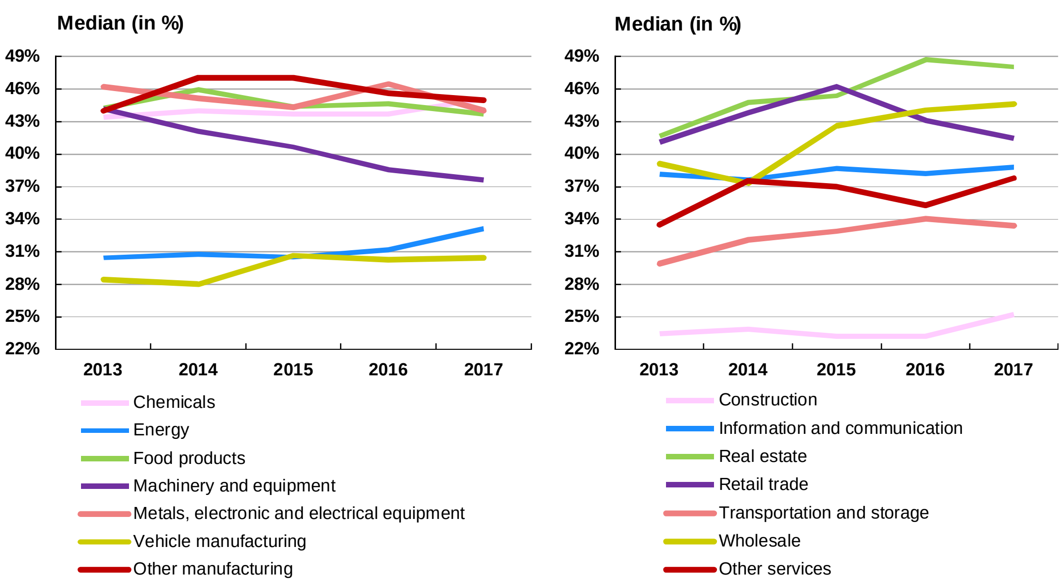
Based on a fixed sample, Chart 10 shows that the median equity ratio gradually climbed from 38.8% to 40.6% over the 2013-2017 period. At a more detailed level, the median equity ratio ended up higher in 2017, than in 2013, in all countries except Austria. Although Greek, Portuguese and Italian groups posted the largest growth over the 5-year period, their median equity ratio remains significantly below the overall median. In 2017, only two countries saw a decline in the median equity ratio: Belgium and, to a lesser extent, Spain. Belgian groups with an equity ratio within the range of the second and third quartiles in particular experienced a fall in their ratio. Portuguese groups achieved an impressive catch up in 2017, again due to the groups in the midmost quartiles. In general, the weighted average figures lay below the median figures, except for Portuguese groups. The four largest Portuguese groups in terms of equity all show an equity ratio above the Portuguese median.

CHART 10 EQUITY RATIO PER COUNTRY (2013-2017)



Source: ERICA 2017 fixed sample.

CHART 11 EQUITY RATIO PER BRANCH OF ACTIVITY (2013-2017)



Source: ERICA 2017 fixed samples.

Broken down by branch of activity[4], it is clear that the overall upward trend in the median equity ratio is mainly driven by the non-industrial sectors. A markedly negative movement is recorded over the five-year period for machinery and equipment manufacturing groups. Several smaller groups with a

4 A definition of the different branches of activity is included in Annex A.

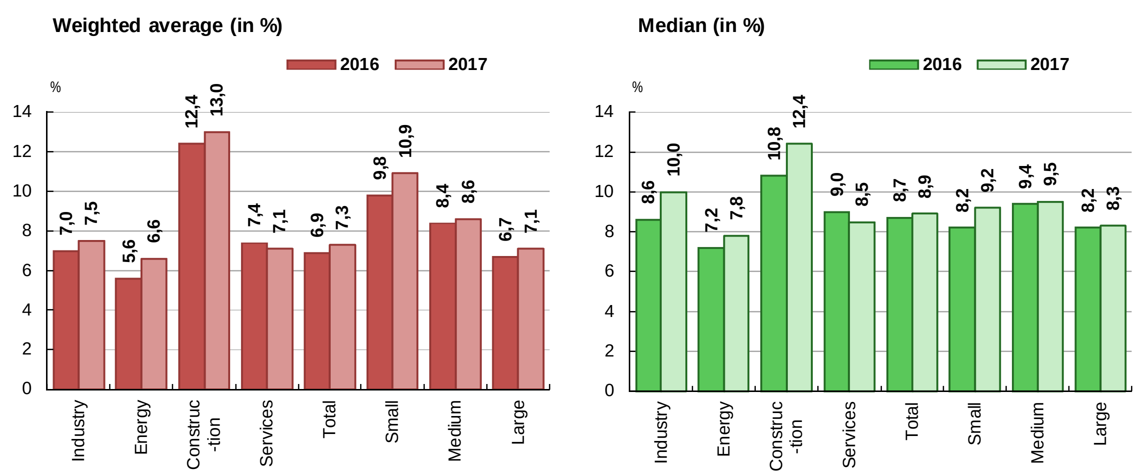
relatively high equity ratio experienced a significant fall, as a result of which this trend is not visible in the weighted average figures[5]. During the last two years, not only certain industrial groups, but also real estate and wholesale groups have achieved relatively high (over 43%) median equity ratios. However, not all industrial sub-sectors have high median equity ratios. During the last three years, this ratio has fluctuated at around 30-31% for vehicle manufacturers. These relatively low values are confirmed in the weighted average figures. These figures are driven by the German automotive industry. Since all these automotive groups own financial subsidiaries, their equity ratio is considerably lower than that of most of the other industrial groups. Over the entire period under review, the construction sector registered the lowest equity ratios, both in weighted average and median terms.

IV.2 CASH AND CASH EQUIVALENTS

A slight but broad rise in the median liquidity ratio, both in 2017 and over the 5-year period

The liquidity ratio is an important metric for assessing the ability of a group to settle payments in the short term. As distinct from a company without group connections, the cash and cash equivalents are used for cash pooling activities within the group.

CHART 12 LIQUIDITY RATIO IN TOTAL, BY SECTOR AND BY SIZE (2016-2017)



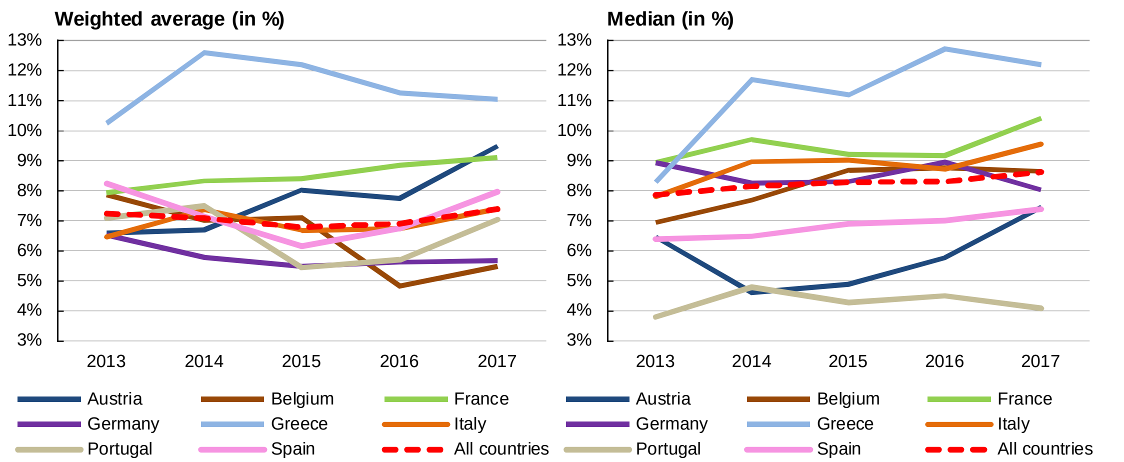
Source: ERICA 2017 sliding sample.

Almost the entire aggregated change in the liquidity ratio for the year 2017 was due solely to movements in cash and cash equivalents because total assets (the denominator) remained approximately stable. The total liquidity ratio was up by about 0.4 percentage points. Except in the service sector, the liquidity ratio soared. In the industry sector, the German chemical multinationals Bayer and BASF contributed the most as a result of merger and acquisition activities. In particular in the industry sector, the dynamic global demand generated a rise in cash flow – which is also indicated in the huge rise in the median figure. Due to foreign currency translations, French energy supplier Total exerted the strongest influence on movements in the energy sector and on the total change.

5 Similar graphs have been plotted on the basis of the weighted average equity ratios. These charts are included in Annex B.1.

Based on the fixed sample, the median liquidity ratio rose slightly from 7.9% in 2013 to 8.6% in 2017. At country level, this development is confirmed[6] for all countries except Germany. In 2017, German groups registered the largest decline. It is striking that 23 of the 27 German groups with the lowest liquidity ratio in 2016 managed to increase their ratio in 2017. The majority of the remaining German groups saw a fall in their cash share. Greek groups enjoy the highest share of cash and cash equivalents, both in weighted average and median terms. This is due on the one hand, to the capital controls that have been imposed, and on the other hand to the difficulties that Greek groups have experienced in borrowing additional funds. Conversely, the liquidity ratio of the median Portuguese group fluctuates between barely 4% and 5%. Both metrics – weighted average and median – indicate a pronounced upward movement in the Austrian groups' cash share in 2017. The OMV and Strabag groups both boosted their ratio by 6 percentage points. For OMV, the cash increase is due to improvements in operational activity, whereas Strabag received exceptionally high advance payments during the last quarter (also noticeable in the higher trade payables).

CHART 13 LIQUIDITY RATIO PER COUNTRY (2013-2017)



Source: ERICA 2017 fixed sample.

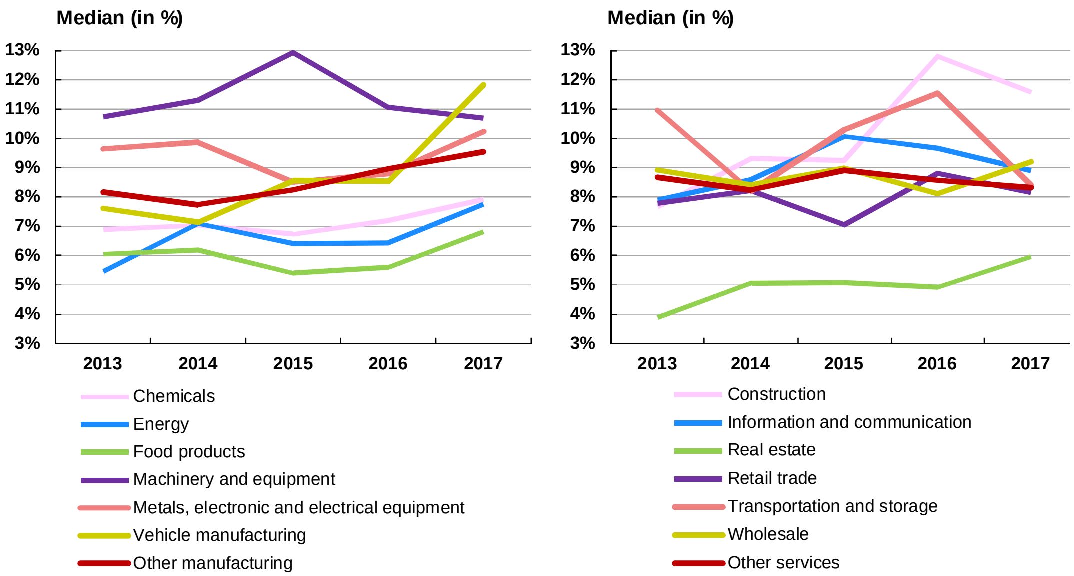
The gradual rise in the overall median liquidity figure is mainly underpinned by vehicle manufacturers and construction, energy and real estate groups. With the exception of the construction sector, these sectors all recorded a remarkable improvement during the last year. In the vehicle manufacturing and real estate sectors, this improvement resulted to a large extent from the impact of the French groups. This observation is in line with the noticeable climb in the median liquidity ratio of French groups in 2017 (Chart 13). Despite catching up somewhat in 2017, the median cash share of the real estate groups and the food products manufacturers remains below 6% and 7% respectively.

The weighted average figures for the real estate sector are even lower[7]. The situation is totally different in the transportation and storage sector, whose previously very high median liquidity ratio dropped by 3.1 percentage points.

[6] Although not essentially, due to variance in the time series, the results are dependent on the starting year.

[7] Similar graphs have been plotted on the basis of the weighted average liquidity ratios. These charts are included in Annex B.2.

CHART 14 LIQUIDITY RATIO PER BRANCH OF ACTIVITY (2013-2017)

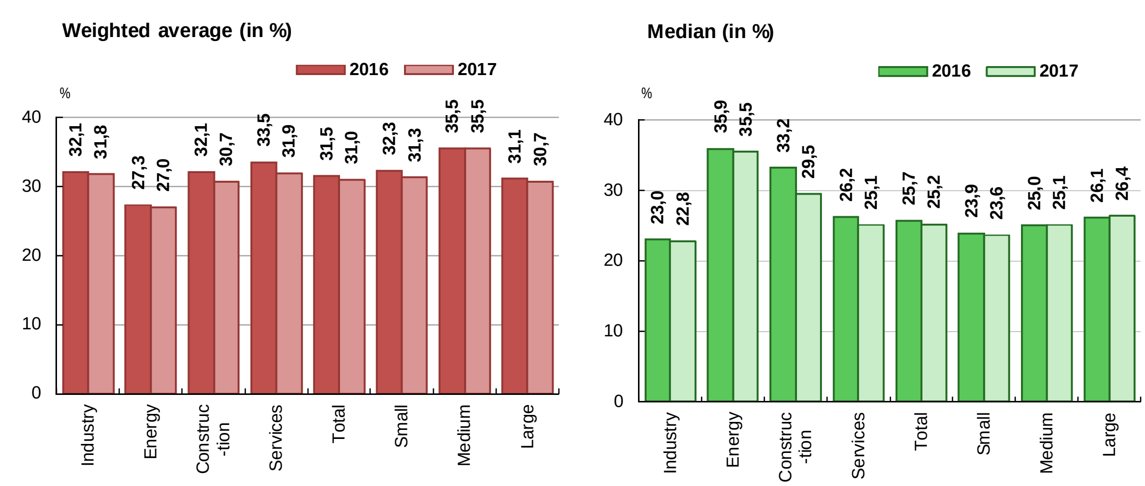


Source: ERICA 2017 fixed samples.

IV.3 MODERATE DECREASE IN FINANCIAL DEBT AND A SLIGHTLY LOWER RATE OF INDEBTEDNESS

Median financial indebtedness decreased over time in many different ways

CHART 15 DEBT RATIO IN TOTAL, BY SECTOR AND BY SIZE (2016-2017)



Source: ERICA 2017 sliding sample.

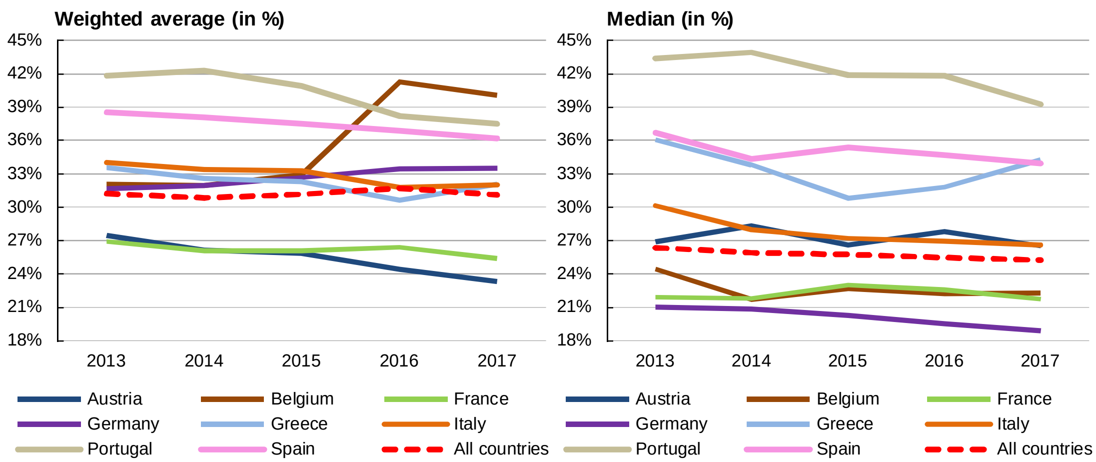
Financial debt indicates the use of credit to finance operations and investment. This is an important source of external finance, but not the only one. Large groups in particular obtain funds from other sources.

From 2016 to 2017, both the aggregated and median financial debt decreased in total and also for each sector. The total aggregated decline is largely the result of debt repayments by Anheuser-Busch

InBev. By contrast, this strong decline was partially offset by a huge rise in bank loans and new bond issues by German automotive groups Daimler and Volkswagen.

Based on a fixed sample, the median financial debt ratio shrank slightly from 26.4% in 2013 to 25.3% in 2017. However, Chart 16 reveals a remarkable variance in median financial indebtedness at country level. During the entire period under review, median figures are highest for Portuguese groups and lowest for German groups. Nevertheless, the Portuguese median showed the biggest decline, both over the 5-year period and in 2017. Except for the two most indebted Portuguese groups, the next eight most indebted all scaled down their financial debt in 2017. Meanwhile, German groups reduced their already low median share of financial debt even further to just 18.9% in 2017. After experiencing a dip in 2015, the median financial indebtedness of Greek groups moved up again, showing the biggest rise in 2017. Comparing median and weighted average figures, Belgian and German weighted averages seem to be most biased by the large groups. This is mainly due to Anheuser-Busch InBev in Belgium and Volkswagen, Daimler and BMW in Germany.

CHART 16 DEBT RATIO PER COUNTRY (2013-2017)

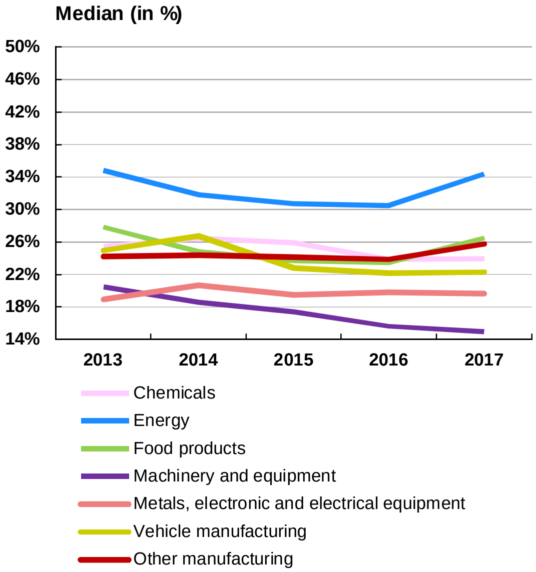


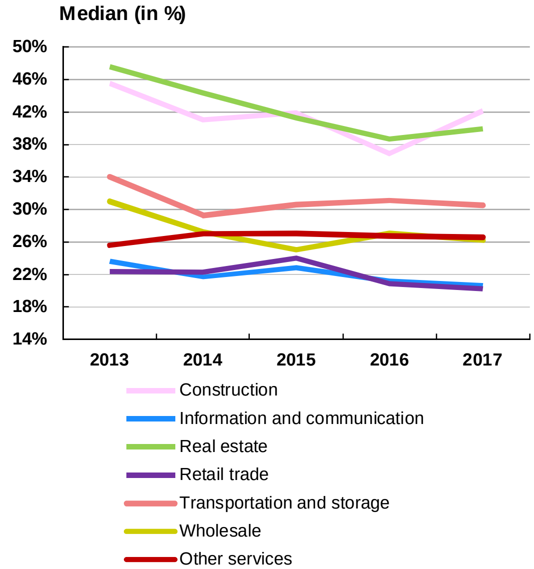
Source: ERICA 2017 fixed sample.

Chart 17[8] points up that during the 2013-2017 period the median share of financial debt declined in all branches of activity, except for metals, electronic and electrical equipment, 'other manufacturing' and 'other services'. In 2017, more sectors show an upward trend. This trend is the most pronounced in the construction sector, resulting in a median debt ratio of 42.2%, following a temporary dip in 2016. Despite the fact that 58% of the construction groups managed to reduce their dependency on financial debt, the sector median rose as most of the groups which increased their share of financial debt had a ratio within the midmost quartiles. Nevertheless, energy groups (+3.9 pp), food products manufacturers (+3 pp), other manufacturing groups (+1.9 pp) and real estate groups (+1.2 pp) all also experienced a noteworthy rise in their median debt ratio. The weighted average financial debt ratios of the food manufacturers, vehicle manufacturers and information and communication groups are the most biased by large groups, due respectively to Anheuser-Busch InBev and Danone, Daimler, BMW and Renault, and the large telecom operators.

[8] Similar graphs have been plotted on the basis of the weighted average debt ratios. These charts are included in Annex B.3.

CHART 17 DEBT RATIO PER BRANCH OF ACTIVITY (2013-2017)





Source: ERICA 2017 fixed samples.

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

In 2017, just under 1,000 non-financial European listed groups feature in the ERICA database. Nearly all (98%) of them had financial debt among their liabilities. This chapter provides an analysis of financial debt by breaking it down into its component sources: (1) financial institutions, (2) bond issues, (3) financial leases and (4) other interest borrowings and the cost of debt.

TABLE 4 ERICA: OVERVIEW OF FINANCIAL DEBT AGGREGGATED VARIABLES IN 2017

In € billion	Number	of which financial debt	Financial debt	Financial institutions	Bonds issued	Finance lease	Other interest borrowings	Interest expense
By country								
Austria	43	43	33.98	16.24	14.52	0.49	2.73	1.11
Belgium	77	74	130.40	11.50	113.27	1.04	4.59	4.84
France	291	288	654.87	150.56	403.90	14.63	85.78	17.53
Germany	178	166	719.41	144.30	424.97	15.35	134.79	14.70
Greece	49	45	21.08	12.00	8.71	0.25	0.13	0.93
Italy	183	182	286.48	121.37	140.45	3.11	21.55	10.39
Portugal	37	37	36.40	11.36	22.12	0.53	2.38	1.26
Spain	109	109	277.07	106.72	131.13	9.33	29.89	9.54
Total	**967**	**944**	**2,159.69**	**574.04**	**1,259.07**	**44.73**	**281.84**	**60.28**
By sector								
1. Industry	409	400	924.82	188.96	551.62	6.41	177.82	19.24
2. Energy	58	56	452.45	102.61	307.10	6.43	36.31	16.50
3. Construction	48	47	101.18	44.67	48.95	1.44	6.14	3.46
4. Services	438	427	665.32	233.93	347.39	29.97	54.02	20.38
5. Not Classified	7	7	1.02	0.38	0.45	0.00	0.19	0.02
Total	**960**	**937**	**2,144.79**	**570.56**	**1,255.52**	**44.25**	**274.47**	**59.61**
By size (revenue)								
1. Small groups (<250mln)	390	375	32.49	20.77	8.11	1.31	2.30	1.02
2. Medium (250mln-1,5bn)	288	280	151.49	84.94	54.65	2.34	9.57	4.89
3. Large groups (>1,5bn)	276	276	1,944.48	459.42	1,183.67	40.43	260.96	53.32
Total	**954**	**931**	**2,128.45**	**565.12**	**1,246.43**	**44.07**	**272.84**	**59.21**

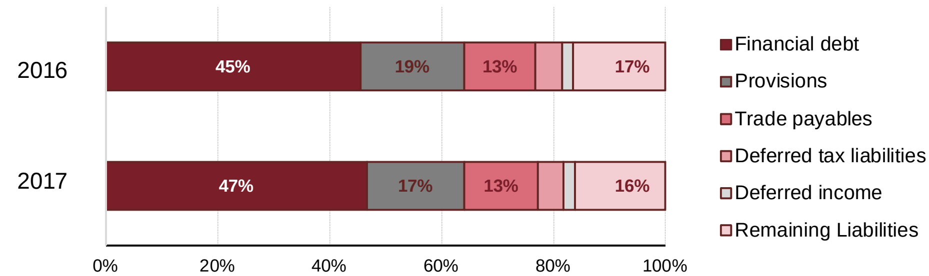
Source: ERICA 2017 static sample.
Note: The number of groups by country and by sector or by size differ: some double-counted groups belong to different countries but are in the same sector. Main figures for 2017 (filter used to avoid double-counting for sector, size and country), data in € billion.

V.1 FINANCIAL DEBT STRUCTURE: ALMOST ALL GROUPS HAVE BANK LOANS BUT FINANCIAL MARKETS ARE THE LARGEST SOURCE OF FUNDING

In 2017, financial debt was the main component of the liabilities, representing 47% of the total figure (Chart 18). Its weight increased by 2 pp compared with the previous year.

Borrowing from financial institutions was the most common way for groups from all countries, sectors and sizes to access external interest-earning funds (Chart 19). European groups took out syndicated loans from both domestic and foreign banks. With the exception of Belgium, more than 87% of all non-financial European listed groups in each country had loans from financial institutions on their balance sheets.

CHART 18 LIABILITIES STRUCTURE (2016-2017)

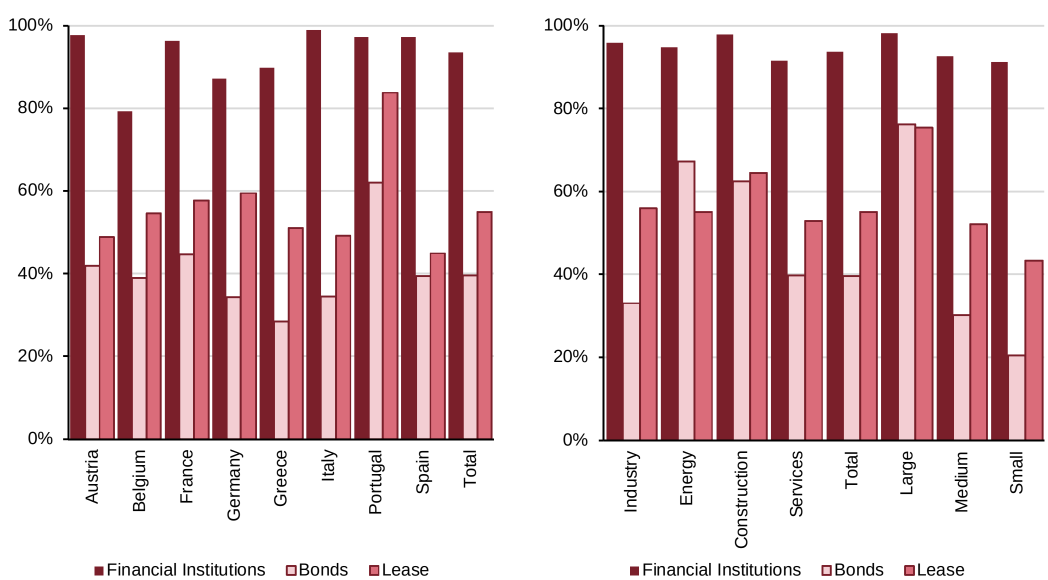


Source: ERICA 2017 static sample & ERICA 2016 static sample.

Financial markets provided funding via bonds for around 60% of Portuguese listed groups in 2017, a significant percentage when compared with the other countries (all below 50%). The lowest percentage is seen among Greek[9] groups, only 3/10 of which had recourse to this source of financing. Financing through bonds is positively correlated with group size. On a sector comparison, energy and construction groups stand out with around 60% of their financing coming from the financial markets.

Financial leases were used by almost half of all European groups to acquire goods and services, with a markedly higher percentage in Portugal where the ratio stood at 83% in 2017. This source of finance was more commonly used in the construction sector and by large groups. The 2016 data led to the same conclusion.

CHART 19 FINANCIAL DEBT STRUCTURE IN 2017 (Number of groups)



Source: ERICA 2017 static sample.

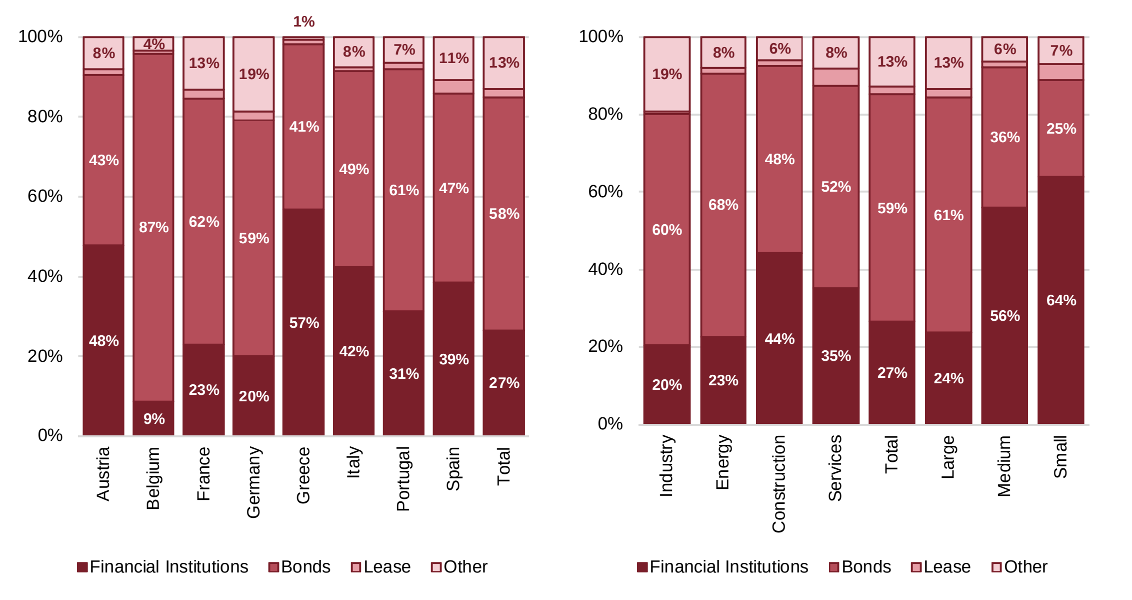
When we move from the number of groups concerned to the total amounts raised, the picture changes (Chart 20). Although recourse to financial markets does not seem so marked when measured in number of groups, this source of funding was nevertheless preponderant in terms of total amounts in

9 Financial debt data of Greek groups for 2016 was revised and is now in line with 2017 financial debt structure and should not be compared with the one published in European non-financial listed groups: Analysis of 2016 data.

the debt financing of European listed groups. Only in Greece and Austria were loans from financial institutions more preponderant as a source of funding (57% and 48% respectively). In 2017, the proportion of group funding accounted for by financial markets ranged from 87% in Belgium, where groups relied on financial institutions for only 9% of their external funding needs, to 41% in Greece. Other sources of financing were quite significant for German, French and Spanish groups, attaining values above 10%.

In fact all sectors prefer to fund themselves on the financial markets. Energy was the most exposed sector (68%) while construction was the least exposed (48%). The majority (roughly 60%) of the large groups' debt funding came from financial markets, in contrast to medium sized and small groups, which rely on the banking system for the majority of their funding.

CHART 20 FINANCIAL DEBT STRUCTURE IN 2017 (Total amounts)



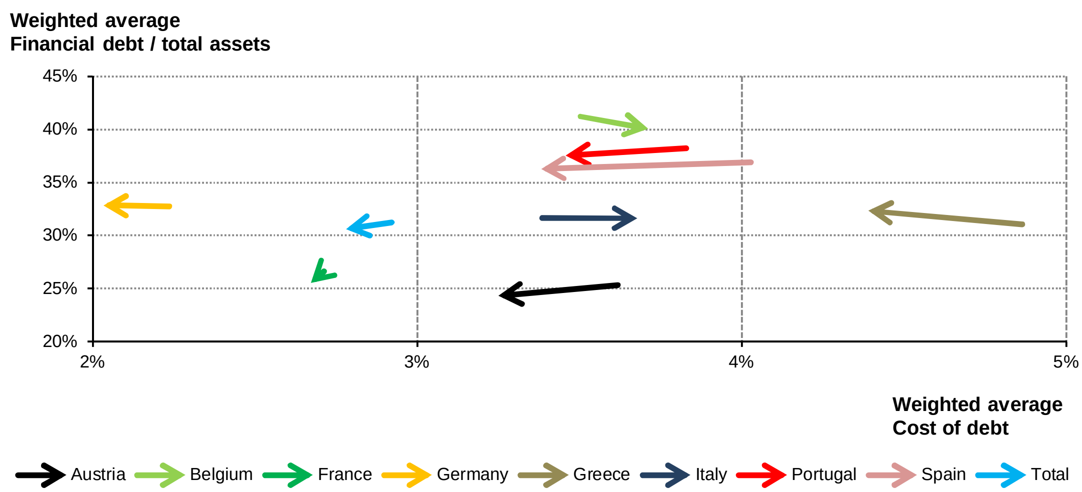
Source: ERICA 2017 static sample.

V.2 COST OF DEBT FELL IN ALMOST ALL COUNTRIES BUT AT DIFFERING SPEEDS

For the purpose of this study, we regard the cost of debt as the total interest expense divided by the financial debt. This purely accounting concept may not react in line with the market interest rate. For instance, a group can change its cost of debt just by altering the composition of its financial debt, even though there is no change whatsoever in the interest rate payable on each type of financing.

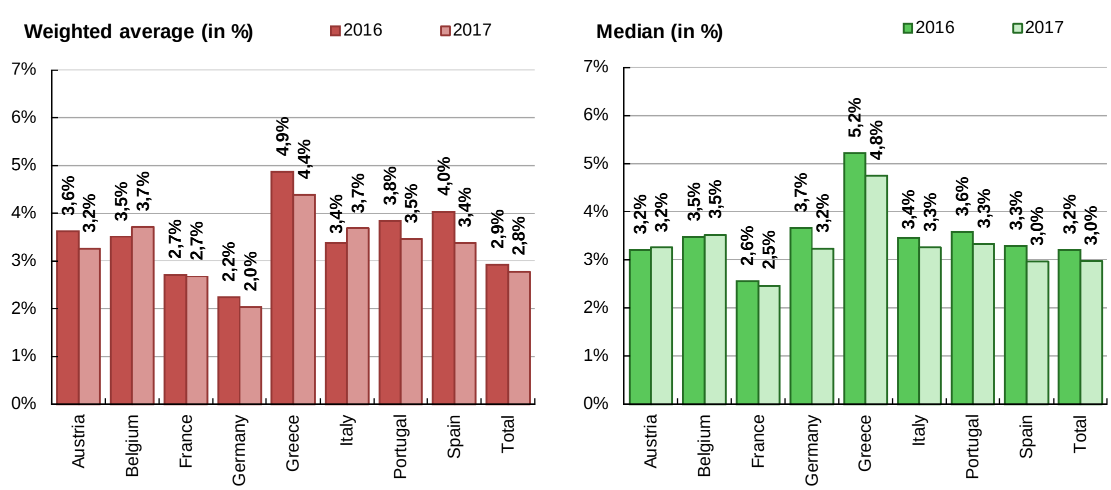
In 2017, the overall cost of debt of the European non-financial listed groups shrank by 0.1% (Chart 21). At country level, only Italian and Belgian groups showed an increase in their cost of debt. Italian groups saw a rise in the premium demanded by investors to invest in their debt - as their financial debt remained unchanged in relation to total assets - following the path of sovereign bond yields. Meanwhile, Belgian groups' interest expenses showed a time lag in reacting to the fall in their financial debt, due to the impact of the Anheuser-Bush InBev brewery group, which recorded in 2017 the interest expense on the bonds issued in 2016 to fund the merger with SABMiller, and the interest expenses on SABMiller's legacy debt. Portugal and Spain enjoyed a significant fall in their cost of debt. They are clearly benefiting from the current low risk aversion as they are still posting larger values for financial debt to total assets. Greek groups also saw a significant reduction (-0.5 pp) in their cost of debt. However, they still face the highest debt charges, paying more than double their German counterparts, who show a similar ratio for financial debt to total assets. Nevertheless, the spread between them shrank in 2017.

CHART 21 COST OF DEBT AND FINANCIAL DEBT TO TOTAL ASSETS BY COUNTRY IN 2017



Source: ERICA 2016 2017 sliding sample.

CHART 22 COST OF DEBT BY COUNTRY (2016-2017)



Source: ERICA 2016-2017 sliding sample.

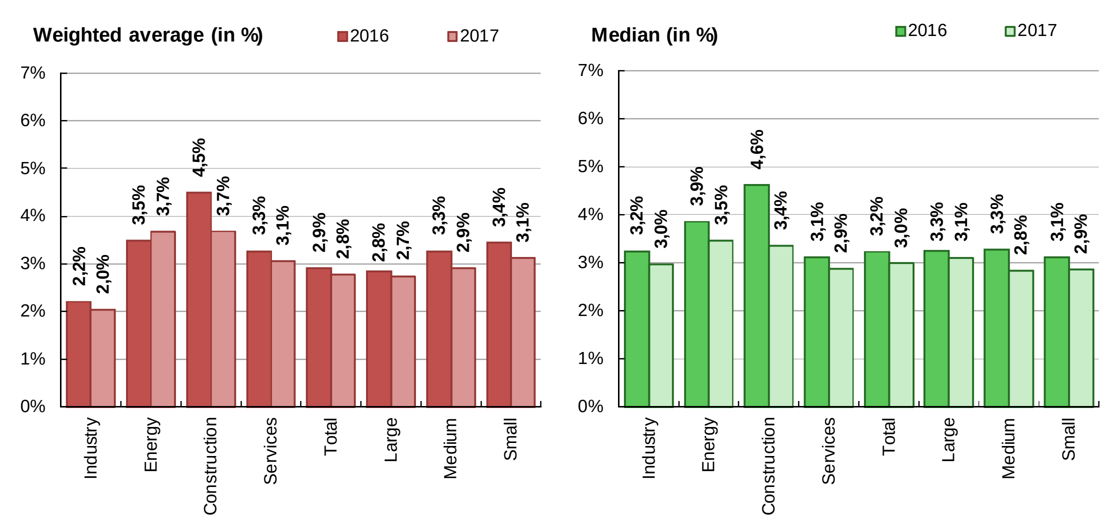
Measured by the median (Chart 22), the cost of debt remained unchanged in Austria and Belgium and declined for all other countries. Greece experienced the largest decrease (-0.4 pp). Nevertheless, Greek groups continue to post the highest median, although the gap vis-a-vis France, with the lowest median, has also contracted.

V.3 MEDIAN COST OF DEBT DECREASED IN ALL SECTORS AND SIZES, WITH THE LARGEST REDUCTION BEING IN CONSTRUCTION AND MEDIUM-SIZED GROUPS

By sector and size, apart from the energy sector whose cost of debt rose 0.2 pp, all remaining sectors and size classes saw their cost of debt reduced (Chart 23). While the construction sector registered the largest reduction (-0.8 pp), this sector still had the highest debt charge, alongside the energy sector in 2017. Meanwhile the industry sector posted the lowest financial debt charge. Groups in this sector pay only around half of the interest paid out by their energy and construction counterparts. By size, the relative rankings remained unchanged as the large groups continued to experience the lowest cost of debt and the small groups the highest. Cost of debt fell for groups of all sizes, but for medium-sized groups in particular (-0.4 pp).

If we analyse the cost of debt through the median, the service sector posted the smallest value in the series. The median shrank for all sizes and sectors, notably for construction (-1.2 pp) and medium-sized groups (-0.5 pp).

CHART 23 COST OF DEBT BY SIZE AND BY SECTOR (2016-2017)



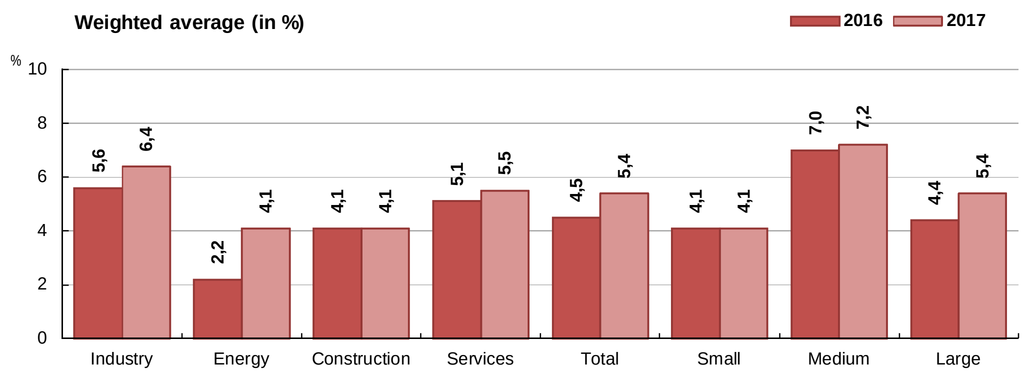
Source: ERICA 2016-2017 sliding sample.

ANNEX A: DEFINITION OF THE BRANCHES OF ACTIVITY

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

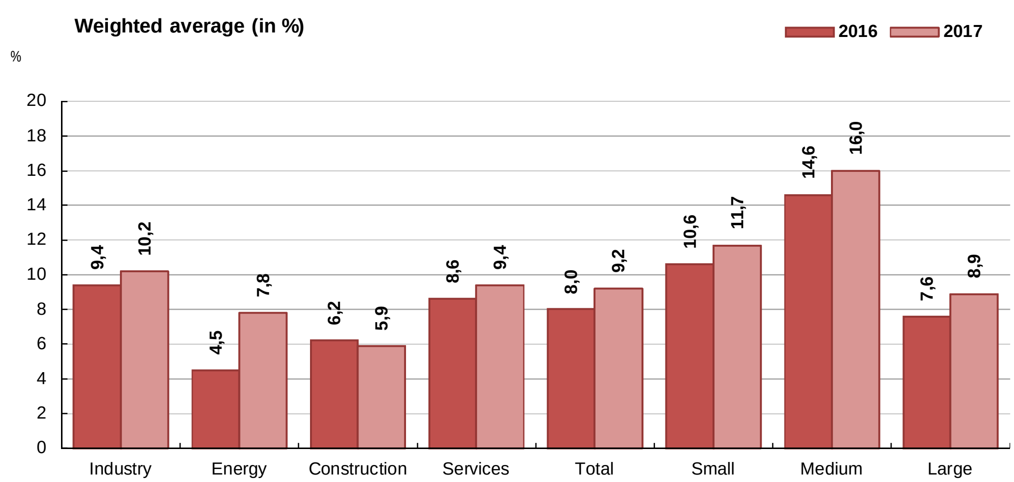
ANNEX B: PROFITABILITY RATIOS – WEIGHTED AVERAGE BY SECTOR AND BY SIZE

1. EBIT RATIO – EBIT / ASSETS TOTAL (2016-2017)



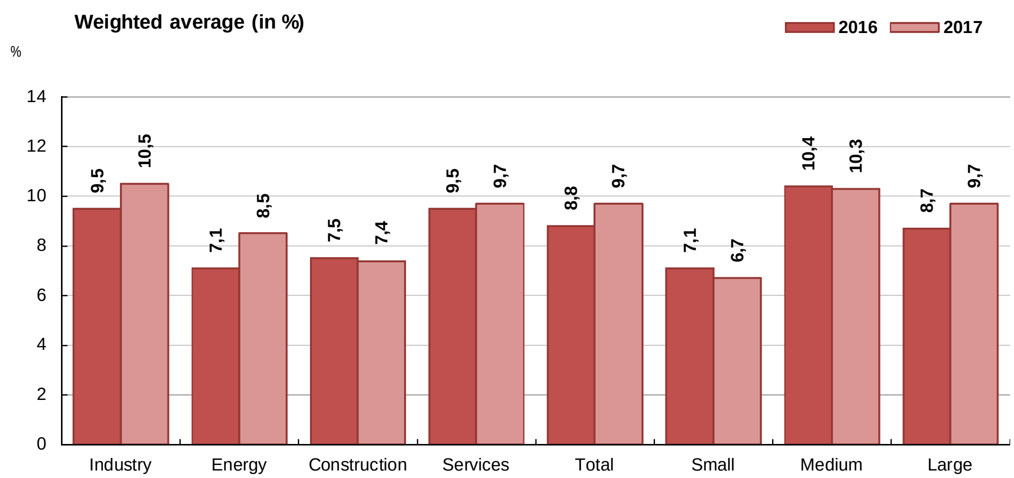
Source: ERICA 2017 sliding sample.

2. MARGIN – EBIT / REVENUE (2016-2017)



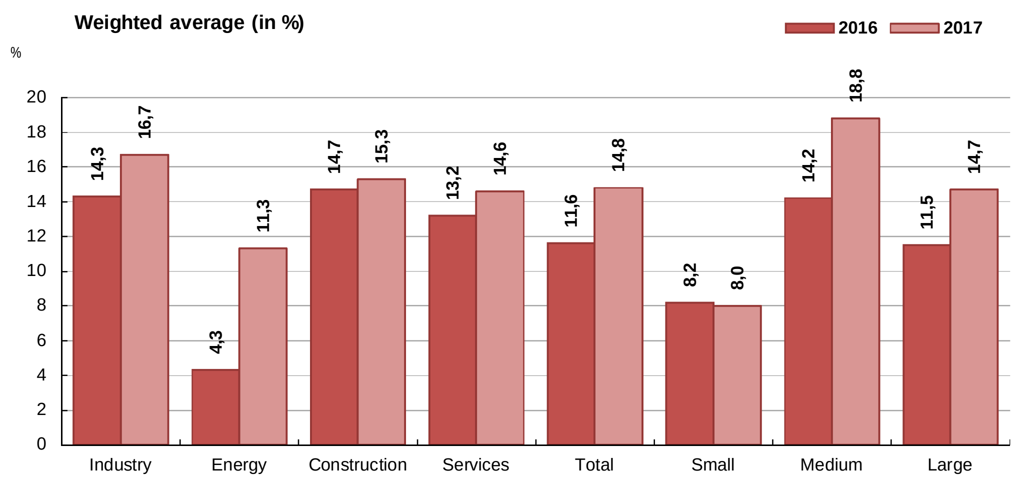
Source: ERICA 2017 sliding sample.

3. EBITDA TO ASSETS RATIO (2016-2017)



Source: ERICA 2017 sliding sample.

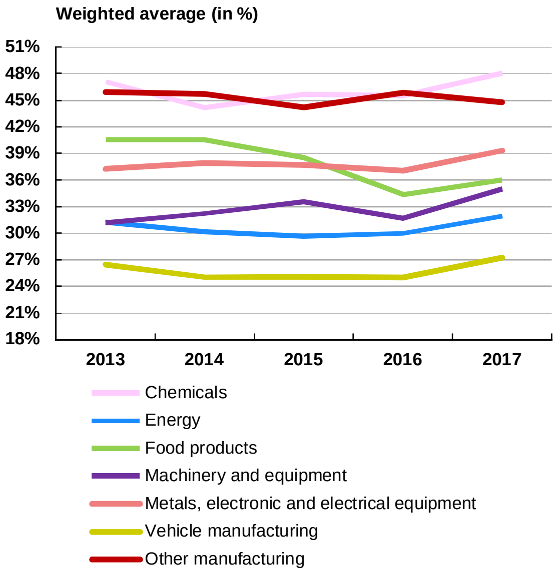
4. RETURN ON EQUITY – PROFIT (LOSS) BEFORE TAX / EQUITY (2016-2017)

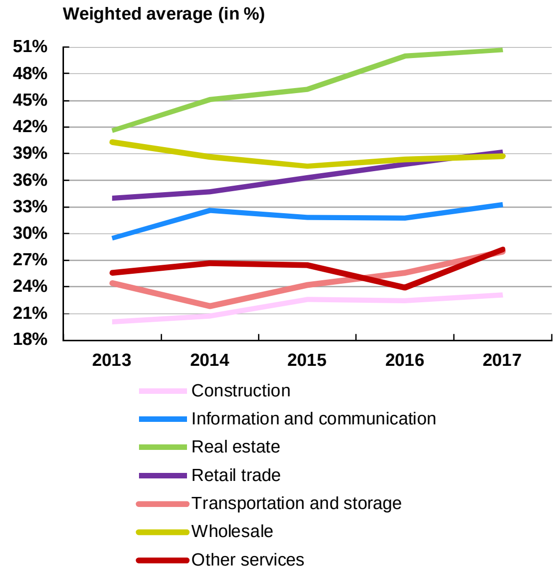


Source: ERICA 2017 sliding sample.

ANNEX C: WEIGHTED AVERAGE EQUITY, LIQUIDITY AND DEBT RATIO PER BRANCH OF ACTIVITY

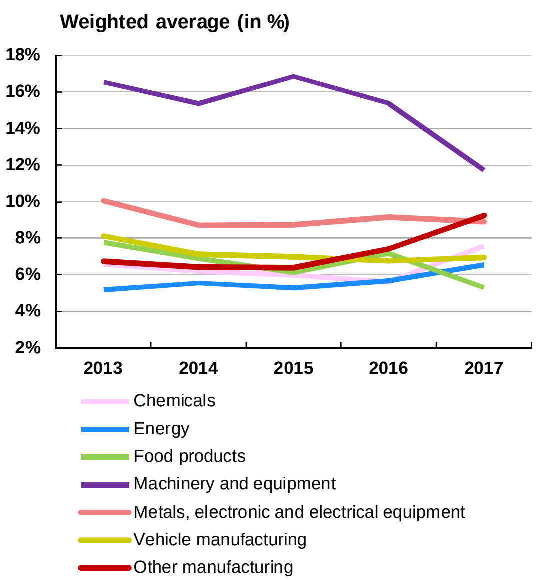
1. EQUITY RATIO PER BRANCH OF ACTIVITY (2013-2017)

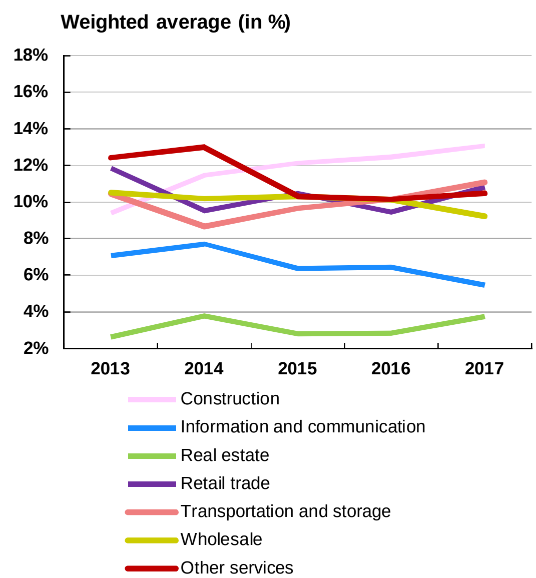




Source: ERICA 2017 fixed samples.

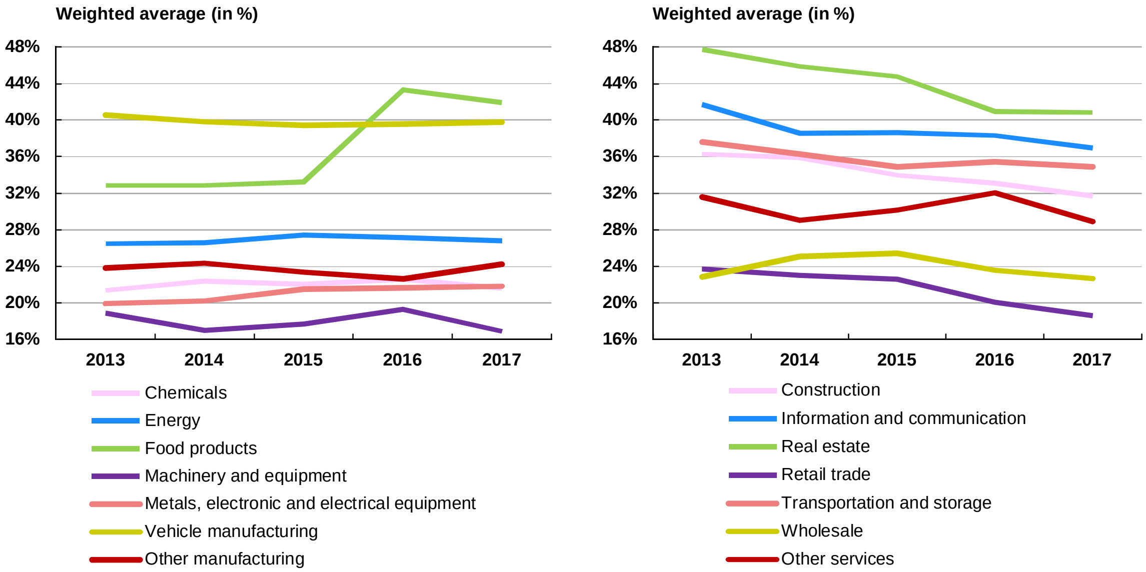
2. LIQUIDITY RATIO PER BRANCH OF ACTIVITY (2013-2017)





Source: ERICA 2017 fixed samples.

3. DEBT RATIO PER BRANCH OF ACTIVITY (2013-2017)



Source: ERICA 2017 fixed samples.

ANNEX D: DEFINITION OF MAIN RATIOS

PROFITABILITY		
NAME	**DESCRIPTION**	**FORMULA**
EBITDA	Earnings Before Interest, Taxes Depreciation and Amortization (proxy of operating cash flow)	(Profit (loss) from operating activities + depreciation and amortization + impairment losses) $_t$
EBIT	Earnings Before Interest and Taxes	Profit (loss) from operating activities $_t$
EBT	Earnings Before Taxes	Profit (loss) from operating and financing activities before taxes $_t$
Profit/Loss	Profit/Loss after Taxes	Profit (loss) from operating and financing activities after taxes $_t$
EBIT/Total Assets	Earnings Before Interest and Taxes / Total assets, also known as EBIT-ROI.	Profit (loss) from operating activities $_t$ / Total assets $_t$
EBITDA/Total Assets	Earnings Before Interest, Taxes Depreciation and Amortization / Total assets, also known as EBITDA-ROI (proxy of operating cash flow per monetary unit of assets invested)	(Profit (loss) from operating activities + depreciation and amortization + 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 over 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 $_t$
Liquidity Ratio	Capacity of a group to settle payments with third parties in the short term	Cash & cash equivalents $_t$ / Total assets $_t$