

The ERICA series:

7. Revenue variation disclosure - Period 2014-2015

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

October 2017



ERICA Working Group
eccbso
European Committee of Central
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7. REVENUE VARIATION DISCLOSURE - PERIOD 2014-2015

(Document prepared by Laurent Carlino, Banque de France)

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IMPORTANT INFORMATION ABOUT THE SOURCE USED (ERICA¹ DATABASE)

The data used in this note are obtained from publicly available financial statements of European non-financial listed groups, having been treated manually, by CBSO statistics 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 around 1.000 groups, as well as in ERICA+, a subset of around 200 groups with extra accounting details) on the listed European groups is well-attuned to the situation and national composition of the stock markets.

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

The “ERICA series” complement the annual report prepared on the ERICA database, with additional pieces of information and/or analysis on specific issues, using the full database ERICA, or its subset ERICA+. Due to its interest and/or the speciality of the themes treated, these short notes are diffused apart from the annual report, in the ECCBSO webpage (www.eccbso.org).

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

REVENUE VARIATION DISCLOSURE - PERIOD 2014-2015

Introduction

When it comes to assessing the dynamism of European groups, it is common wisdom to consider their turnover growth as the best proxy. However, this approach can be misleading because these raw numbers do not differentiate between intrinsic effects and external effects. As a result, the economic health of the groups may be much more balanced than it seems at first glance.

The turnover of the main European non-financial listed groups can be analysed in terms of its various components: exchange rate effects, consolidation effects and organic growth. The growing internationalisation of the main European groups raises their sensitivity to exchange rate fluctuations. For instance, the conversion of foreign subsidiaries' accounts into euro at the end of the accounting period has a marked impact on their consolidated turnover. The consolidation effect reflects the acquisitions and divestments of subsidiaries of the main groups and, thus, the contribution to turnover made by entities entering the consolidation scope minus that of those exiting it. When these two effects are removed, organic growth is obtained and represents the intrinsic growth of the groups.

Based on the ERICA database, this study conducts an in-depth analysis of the turnover growth of European non-financial listed groups in order to ascertain their intrinsic dynamism. In the first part we explain the methodology used, the second part presents a global analysis and then, in the third part, we conduct an analysis by group size and sector.

1. METHODOLOGY

This analysis sample is composed of ERICA database non-financial listed groups located in 8 European countries². During the 2015 data collection process, the ERICA working group started collecting data on revenue variation disclosure for the biggest listed groups (called ERICA+). As a consequence, this study will focus on the variation between 2014 and 2015. Moreover, in order to ensure an accurate picture of the changes between 2014 and 2015, it is necessary to keep the groups exactly the same for each country in 2014 and in 2015. This approach avoids exogenous effects such as groups appearing and disappearing, which could bias the analysis.

Consequently, the sample is composed of a total of 234 groups which can be divided into 3 size categories (small, medium and large) in 4 sectors of activity (construction, energy, industry, services) which are displayed in table 1.

² Countries in the ERICA dataset: Austria, Belgium, France, Germany, Greece, Italy, Portugal and Spain.

TABLE 1 OVERVIEW OF THE SAMPLE

	Size	Sector				Total
		Construction	Energy	Industry	Services	
Austria	Large	1	2	2	0	5
	Medium	0	0	4	2	6
	Small	0	0	3	1	4
	Total	1	2	9	3	15
Belgium	Large	0	0	8	5	13
	Medium	0	2	11	3	16
	Small	1	1	4	7	13
	Total	1	3	23	15	42
France	Large	2	3	12	8	25
	Medium	0	0	0	0	0
	Small	0	0	0	0	0
	Total	2	3	12	8	25
Germany	Large	0	2	20	8	30
	Medium	0	0	0	0	0
	Small	0	0	0	0	0
	Total	0	2	20	8	30
Greece	Large	1	1	2	1	5
	Medium	3	0	5	8	16
	Small	0	1	7	9	17
	Total	4	2	14	18	38
Italy	Large	2	5	6	2	15
	Medium	1	1	2	1	5
	Small	0	0	0	1	1
	Total	3	6	8	4	21
Portugal	Large	1	1	3	2	7
	Medium	1	1	4	4	10
	Small	3	0	3	12	18
	Total	5	2	10	18	35
Spain	Large	3	4	5	9	21
	Medium	0	0	2	4	6
	Small	0	0	1	0	1
	Total	3	4	8	13	28
TOTAL		19	24	104	87	234

Source: ERICA 2015 database

However, it is important to take into account the different weight of each country in terms of revenue (table 2).

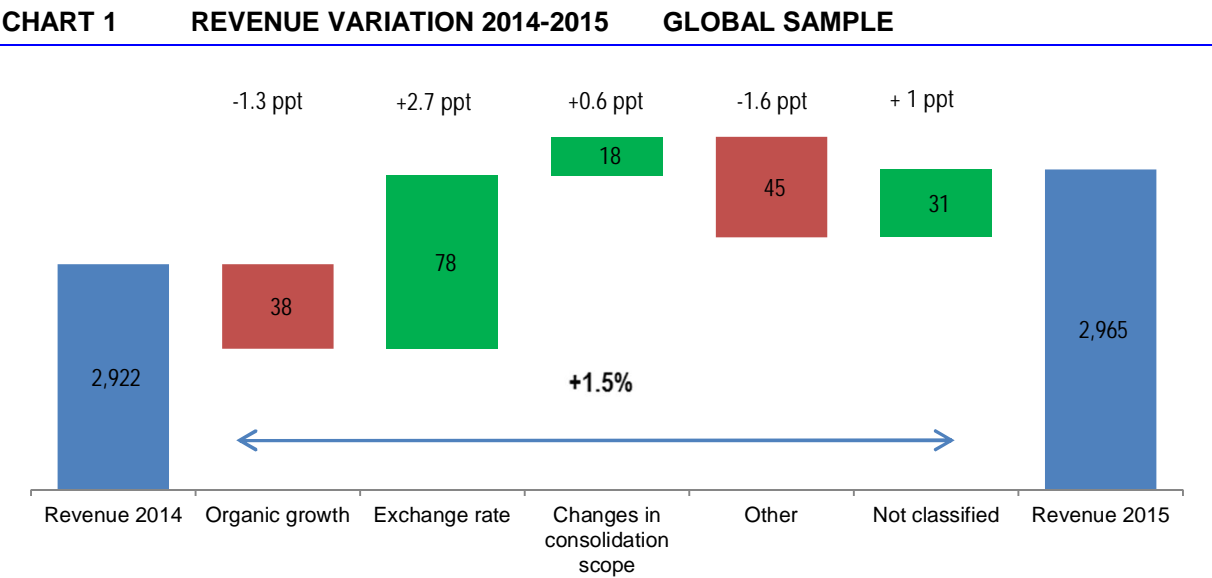
TABLE 2 COUNTRIES' WEIGHT IN TERMS OF REVENUE

	Revenue 2015 (bn €)	%
Austria	42	1%
Belgium	126	4%
France	875	30%
Germany	1 305	44%
Greece	36	1%
Italy	221	7%
Portugal	66	2%
Spain	295	10%
Total	2 965	100%

Source: ERICA 2015 database.

Germany and France represent 70% of the total of revenue for 2015. As a result, groups belonging to these countries will have the greatest impact on the changes in revenue. In other words, if there is a major economic boom (or downturn) in one of these two countries, that will have a greater positive (or negative) impact on our conclusions.

2. GENERAL OVERVIEW



Source: ERICA 2015 database.

The total revenue of the 234 groups increased by 1.5% from 2 922 billion euros in 2014 to 2 965 billion euros in 2015. This increase can be analysed according to its various components.

The groups’ expansion into international markets was accompanied by a more or less marked increase in their exposure to currency risk. In addition to the day-to-day difficulties this poses in terms of finding effective hedging strategies, it also obliges groups to convert foreign subsidiaries’ accounts into euro, which automatically has an impact on their consolidated turnover (turnover is almost always published in euro). In practice, the effect is purely an accounting one, as it is linked to the consolidation method used and to the valuation of the flows generated by foreign subsidiaries. It is thus not a specific cost incurred in hedging currency risk.

In 2015, foreign exchange effects had a positive impact on the revenue growth of European groups, representing a positive contribution of 2.7 percentage points, equal to 78 billion euros. This was mainly due to the euro’s depreciation against other currencies, and, more specifically, against the dollar. This trend started in September 2014 but strengthened from January 2015 following the announcement of the implementation of the Eurosystem’s quantitative easing programme.

The groups under review do not have rigid structures. Their composition changes regularly as they acquire or divest subsidiaries. As a result, yearly turnover incorporates the effects of changes in the consolidation scope, reflecting the contribution by entities that entered the scope minus the

contribution of those exiting it. Most groups report these changes in their consolidation report or provide enough information to permit assessment of the role played by external growth.

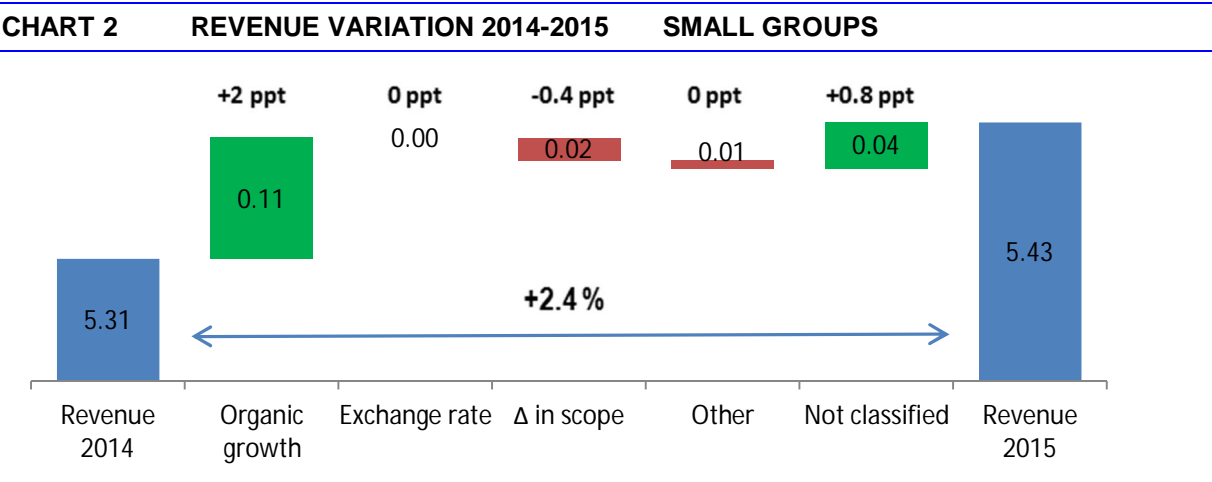
In 2015, European groups recorded substantial growth, since the consolidation effect was positive, up by 18 billion euros (0.6 percentage point). It means that European groups tend to consolidate their position by means of mergers and acquisitions which strengthen their turnover growth.

In addition to these two categories, some groups might sometimes include other categories such as “commodity price effect” or “legislation effect” in the information they give. Since there may be considerable variations between countries, sectors or size categories, it is difficult to conduct a precise analysis on these specific topics. That is why they are aggregated in the “Other effects” category which was negative in 2015, equal to -45 billion euros (-1.6 percentage points).

However, it is not mandatory for companies in Europe to provide information on variations in their revenue. As a consequence, some groups do not give any details on this topic. It was decided not to incorporate revenue variations in the other categories and to create an *ad hoc* “not classified” category which represented 31 billion euros in 2015 (1.00 percentage point).

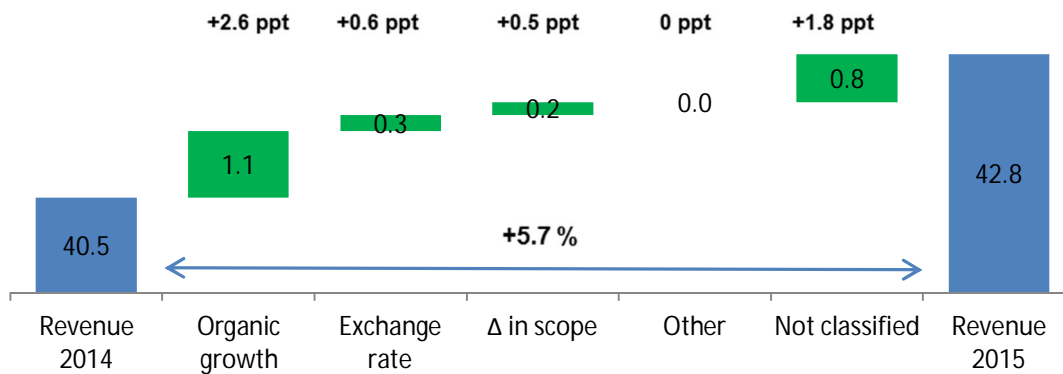
After elimination of the exchange rate and consolidation effects, as well as the other effects and non-classified effects, we obtain organic growth which explains the extent to which the growth is due to the groups’ intrinsic performance. In 2015, European groups produced negative organic growth, down by 38 billion euros (-1.3 percentage points). This means that, although overall growth was positive, an in-depth analysis shows that the growth was due more to external contributions (and, above all, the exchange rate effect) than to the intrinsic performance of European groups.

3. ANALYSIS BY GROUP SIZE



Source: ERICA 2015 database.

CHART 3 REVENUE VARIATION 2014-2015 MEDIUM-SIZED GROUPS

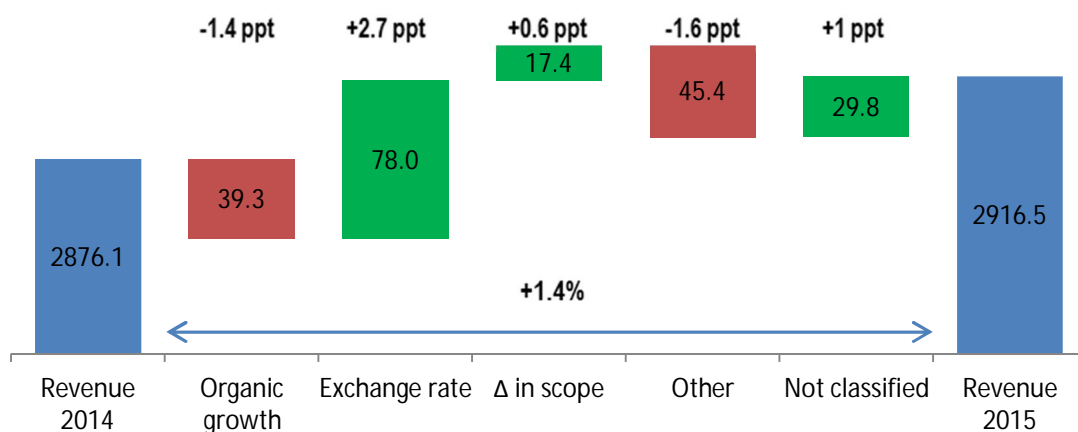


Source: ERICA 2015 database.

When the same analysis is made for the size categories, we can see that, on the one hand, small and medium groups tend to behave in the same way. Their organic growth is slightly positive and represents around 2 percentage points of their respective growth. The exchange rate effect has only a small impact on their revenue, which means that they are less internationalised than their larger peers. For these categories, organic growth is positive compared to the global revenue breakdown which means that their performance relies more on intrinsic effects.

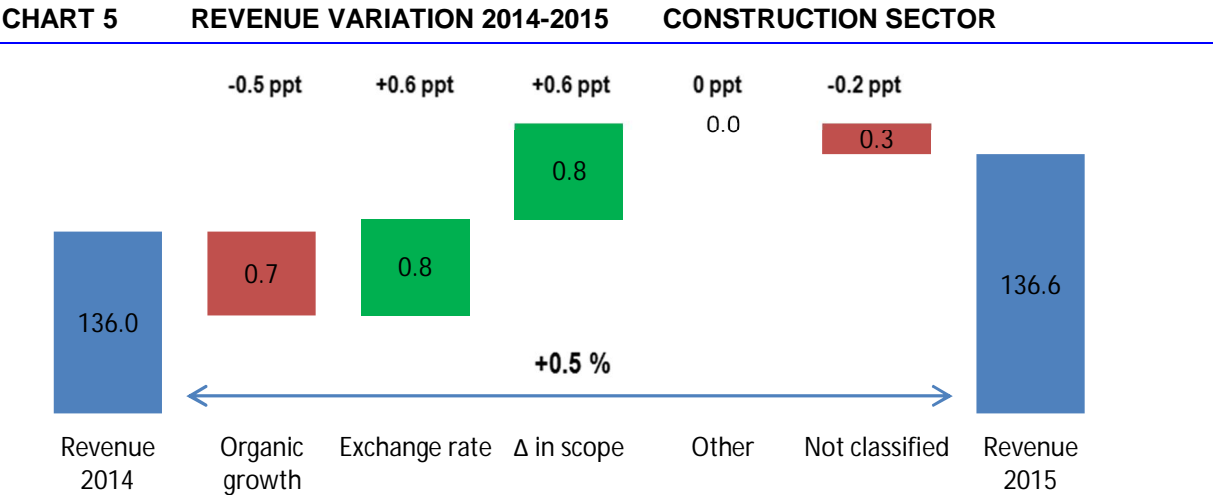
On the other hand, the largest groups show a profile more similar to the global revenue breakdown, with an increase of 1.4% in 2015. The exchange rate effect makes the biggest contribution, which means that the large groups are more internationalised. Their foreign activities have a greater impact on their performance. Other effects are also greater (and negative) because energy groups tend to be some of the largest groups (see next part). When these effects are stripped out, we can see that the organic growth is negative (-39.3 billion euros). However positive the total growth may seem, the intrinsic performance of the largest groups is not good. Their overall performance is due solely to external effects.

CHART 4 REVENUE VARIATION 2014-2015 LARGE GROUPS



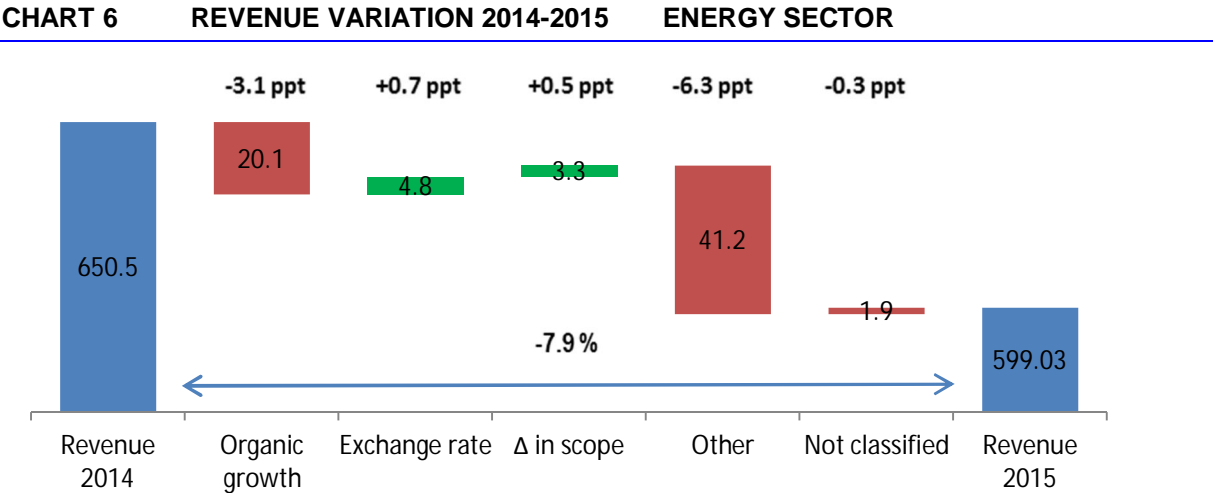
Source: ERICA 2015 database.

4. ANALYSIS BY GROUP SECTOR



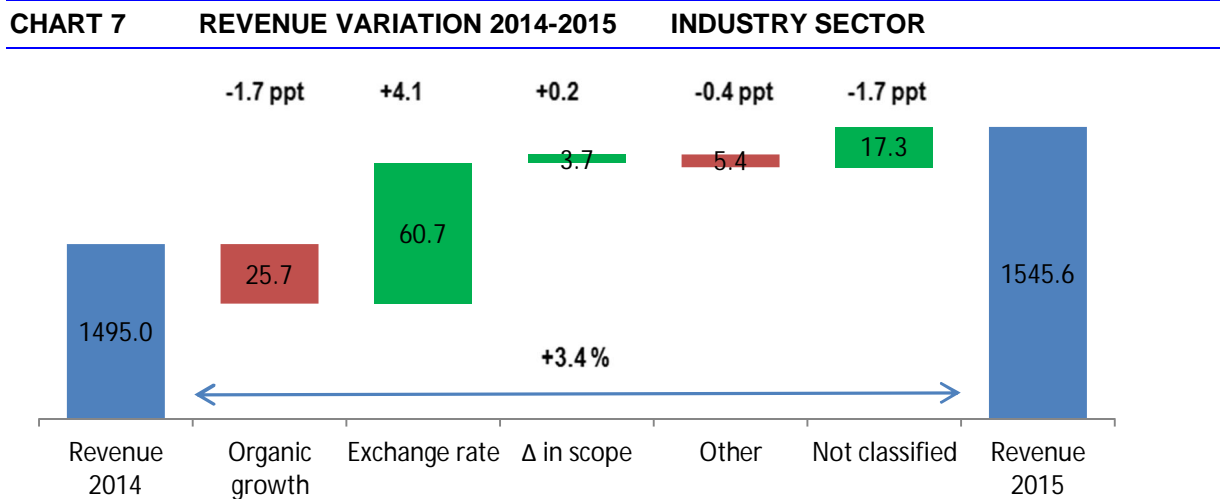
Source: ERICA 2015 database.

Construction group turnover increased by 0.5% in 2015. Construction is the smallest sector since it represents only 4.6% of the sample’s total turnover. Although revenue was almost steady in the period under review, there were clearly significant differences between the various kinds of contributions. The exchange rate effect and the consolidation scope effect were both positive in 2015. However, once these positive effects are eliminated, organic growth appears to be slightly negative.



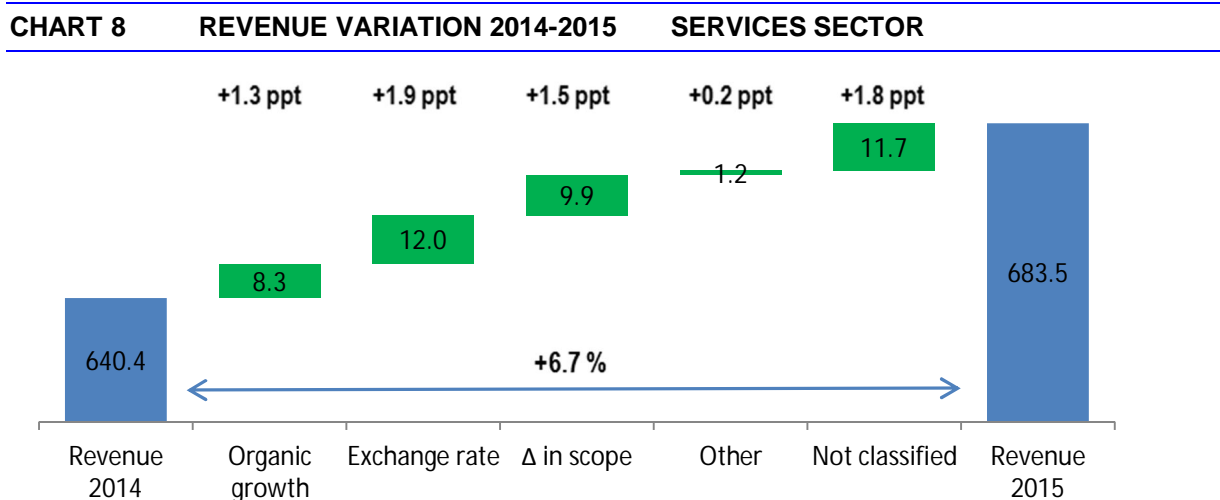
Source: ERICA 2015 database.

In 2015, the energy sector alone recorded a sharp fall in turnover, down by 7.9% from 650 billion euros to 599 billion euros. This was due mainly to the effects of other factors, including oil and gas prices, as commodity prices fell steeply in 2015, creating an adverse environment. Moreover, oil and gas prices are linked to national regulations. This external effect had an impact on the intrinsic performance of these groups since their organic growth was negative (-3.1 percentage points).



Source: ERICA 2015 database.

Industry is the largest sector in this sample. During the year 2015, its weight increased even more due to the second highest turnover growth in terms of both percentage (+3.4%) and amount, with a 50 billion euro increase from 1495 billion euros to 1545.6 billion euros. This increase is in fact due mainly to the exchange rate effect which is the highest in amount as well as in percentage points compared to other sectors. The reason could simply be that this sector is more internationalised than the others and relies more on its foreign activities. However, if we take a look at the organic growth, that figure is negative, which means that the growth of the industrial sector is due solely to external effects.



Source: ERICA 2015 database.

The service sector's revenue displays the strongest percentage increase (+6.7%), rising to 683.5 billion euros. Unlike in the other sectors, the revenue breakdown shows that this growth is due almost equally to each component, even the organic growth which is positive at 1.3 ppt. This is the most dynamic sector of this sample in 2015, and its dynamism is intrinsic.

5. CONCLUSION

This short note has shown that it is important not only to look at general turnover growth but also to conduct a detailed analysis of its various components. A turnover increase of 1.5 % for the total sample may seem positive for the eurozone economy, but if we take a closer look at each contributory factor, it is easy to see that the growth is due merely to an accounting effect - the conversion of foreign subsidiaries' accounts into euro - and to a lesser extent to external growth. When this analysis is made by group size or by sector, we can see that intrinsic growth is negative in most cases but it is largely offset by the positive exchange rate effect. However, organic growth is positive in small and medium groups, as well as in the services sector.