AREA STUDI MEDIOBANCA

EFFECTS OF COVID-19 ON 9M 2020 RESULTS FOR MULTINATIONALS AND FTSE MIB COMPANIES

MULTINATIONALS: SOFTWARE/INTERNET, LARGE-SCALE DISTRIBUTION AND ELECTRONICS CONTINUE TO GROW; OIL/GAS, FASHION AND AUTOMOTIVE STRUGGLING

FTSE MIB COMPANIES: €46BN IN MARKET CAP WIPED OFF THE STOCK MARKET IN 9M, SOME OF WHICH HAS BEEN RECOVERED ALREADY; POSITIVE RESPONSE FROM MANUFACTURING INDUSTRY IN 3Q

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The **Mediobanca Research Area** has analysed the impact of the Covid-19 pandemic on the 9M 2020 financial statements of over 160 global industrial multinationals with annual turnover of more than €3bn, and the 26 industrial and services companies included in the FTSE MIB index.[1]

The presentation is available for download from the company's website at www.mbres.it.

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Industrial multinationals in 9M 2020: comparison between sectors

In the first nine months of 2020, the **turnover** posted by the industrial multinationals analysed shrank by 4.3% Y.o.Y., with the reductions by certain sectors offset in part by the growth in others. Software/internet, large-scale distribution, electronics and food are the only sectors that saw total sales increase in all the first three quarters of 2020. In particular, top-line growth was reported by the software/internet companies (total sales up 18.4% Y.o.Y.), followed by large-scale distribution (up 8.8%) and electronics (up 5.7%). Other good performances were reported by the food multinationals (total sales up 3.7%), the pharmaceutical companies (up 3.1%) and the firms operating in the pay tech industry (up 0.3%). By contrast, the oil and gas multinationals fared worst, with sales down 32.3%, along with the firms operating in the aeronautical industry (down 30.6%), and in the fashion (down 21.3%) and automotive sectors (down 17.4%). Smaller reductions were reported by the companies operating in media and entertainment (down 9.4%), beverages (down 5.4%), and telecommunications (down 1.8%).

Industrial margins (EBIT) also suffered, down 22.8% in the aggregate, with the exception of large-scale distribution (EBIT up 25.7%), software/internet (up 14.2%), electronics (up 14.1%), and food (up 6%). The sectors hit hardest were aeronautical (where a loss was posted at the EBIT level), fashion (down 98.8%), oil and gas (down 66.6%), and automotive (down 65.8%). Less pronounced but still material contractions in EBIT were also reported by the media and entertainment groups (down 31.1%), firms operating in pay tech (down 16.7%), and the beverage sector operators (16.5%).

1) These are fifteen privately-owned and eleven publicly-owned companies, sixteen operating in manufacturing industry, six energy companies/utilities, three service companies, and one oil and gas company. The full list is as follows: A2A, Amplifon, Atlantia, Buzzi Unicem, CNH Industrial, Davide Campari-Milano, DiaSorin, ENEL, ENI, FCA, Ferrari, Hera, Interpump Group, Inwit, Italgas, Leonardo, Moncler, Pirelli & C., Prysmian, Recordati, Saipem, Snam, STM, Telecom Italia, Tenaris, and Terna.

Similar considerations also apply to the **EBIT margin (i.e. EBIT as a percentage of total sales),** which came in at 13.2% for 9M 2020, reflecting an average reduction of 3 pp. Pay tech was the sector which reported the highest EBIT margin in absolute terms, despite falling in the nine months (27.4%; down 5.6 pp). In second place were the pharmaceutical multinationals (22.9%; down 0.8 pp) and electronics firms (19.7%; up 1.5 pp), which along with the large-scale distribution groups (up 0.6 pp) and food industry operators (up 0.5 pp), were the only sectors to report an increase in their EBIT margin. Meanwhile, there were double-digit reductions for the fashion sector groups (0.1%; down 11.1 pp) and aircraft manufacturers (minus 6.4%; down 10.6 pp).

At the bottom-line level, a **net loss** was incurred by the aggregate of companies in 9M 2020, with only the software/internet firms (up 21.8%), large-scale distribution (up 19.2%) and electronics groups (up 11.6%) bucking this trend. Strongly negative results were posted by the means of transport, fashion and oil/gas industry operators.

Effects of Covid-19 on market cap of FTSE MIB companies (industrials and services) and their financial data

As at end-September 2020 the industrial and service companies included in the FTSE MIB index **had a stock market value of €318bn**, representing 76% of the total market capitalization (i.e. with financial companies and insurances excluded). Overall, in the first nine months of 2020 **a total of €46bn was wiped off the stock market** (with 12.6% shed since the start of the year), due to the huge loss incurred in 1Q (€83bn, down 22.8%), some of which was recovered in 2Q (up €38bn, or 13.7%); with a minor reduction reported in 3Q (€1bn, down 0.4%). Signs of recovery were reported from end-September up to 16 November 2020, with €35bn being added (up 11.0%).

Looking at the data by sector, the oil and gas industry recorded the highest contraction in market cap, down 51.8%, followed by services (down 19.8%) and manufacturing industry (down 8%).

The companies which performed best on the stock market in the first nine months of 2020 were DiaSorin, whose share price rose 48.4%, Amplifon (up 19.7%), Recordati (up 16.5%), Prysmian (up 15.0%), Davide Campari-Milano (up 13.8%) and Interpump Group (up 12.3%).

In the same period, **the companies analysed saw an aggregate reduction in total revenues of over €64bn (down 21.6%).** In 3Q **manufacturing industry responded the best**, with total sales soaring (up 56.1% on 2Q), and outperforming the FTSE MIB as a whole (up 39.1%). For 9M 2020 the lowest reduction was reported by the services companies (down 14.0%), better than the energy groups/utilities (down 16.4%) and manufacturing companies (down 18.7%), whereas the worst performance was by the oil/gas sector operators, with Eni seeing its revenues contract by 39.7%. The best performing companies were DiaSorin (total sales up 16.2%), the only one to record double-digit growth, followed by Inwit (up 6.4%), Snam (up 3.9%), STM (up 2.9%) and Terna (up 1.7%).

In 9M2020 the companies analysed lost more than €18bn in **industrial margins** (down 53.3%). Although the year-on-year reduction was substantial (65.6%), manufacturing industry in particular managed to reverse the downward trend in 3Q, returning to positive territory. The smallest reduction was reported by the companies operating in the energy sector and the utilities (down 2.2%), whereas Eni reported a loss at the EBIT level.

The EBIT margin for the companies analysed was 6.8% in 9M 2020 (down 4.5 pp vs 2019). The energy companies/utilities here again were the most resilient, being the only ones to see increases in their EBIT margins (up 2.4 pp, to 17.7%). Meanwhile, double-digit reductions were reported by oil/gas, i.e. Eni (down 14.9 pp, EBIT margin minus 1.3%), and services (down 14.5

pp, to 9.2%). A smaller reduction was reported by manufacturing industry (down 3.8 pp), where the EBIT margin returned to positive territory at 2.8%.

The **profits** lost in the nine months amount to over €20bn. Only the energy/utilities and services sectors delivered a profit, with Eni and manufacturing industry posting losses.

As for financial structure, further deterioration was reported by all sectors, as a combined result of an increase in borrowing (up 12.1%) and a contraction in net equity (down 9.1%). The **debt/equity ratio** fell accordingly, and now stands at 146.5% (versus 118.7% at end-December 2019, up 27.8 pp in 9M 2020). The services sector reflects the highest levels of leverage (debt/equity ratio 231.7%), followed by energy/utilities (163.7%), manufacturing industry (112.4%), and oil and gas represented by Eni (89.5%).

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