AREA STUDI MEDIOBANCA

EFFECTS OF COVID-19 ON FY 2020 RESULTS OF LARGE GLOBAL MULTINATIONALS: ANALYSIS BY SECTOR AND GEOGRAPHY

INTERNET/SOFTWARE COMPANIES CONTINUE TO FLY HIGH, WHILE LARGE-SCALE DISTRIBUTION AND FOOD GROW, BUT AIRCRAFT MANUFACTURERS AND OIL & GAS/FASHION INDUSTRY OPERATORS RECORD MASSIVE REDUCTIONS

CHINESE MULTINATIONALS HAVE PERFORMED WELL, WHILE US GROUPS HAVE BEEN BOLSTERED BY THE HIGH-TECH INDUSTRIES; EU AND IN PARTICULAR ITALIAN COMPANIES THE HARDEST HIT

The pandemic has impacted differently on sectors in terms of their total sales and capex; in many cases stock market prices have already returned to above their pre-Covid levels

Milan, 30 March 2021

The **Mediobanca Research Area** has analysed the impact of the Covid-19 pandemic on the FY 2020 results of nearly 200 large multinationals with annual total sales of over €3bn, aggregate total revenues of over €8,000bn, and a total workforce worldwide of some 21 millionstaff.

The presentation is available for download from www.areastudimediobanca.com.

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Covid-19 and large multinationals: sectors and geographies compared

The Covid-19 pandemic has had a material and diversified impact on all players in the global economy, including **large multinationals**. With China already returning to pre-crisis levels, the signs of recovery glimpsed in 3Q have been partly borne out in the fourth quarter, in particular for groups that sell primarily in Asia. The sectors that have been hardest hit are the **oil & energy giants, transport manufacturing operators** and large **fashion industry groups,** recording double-digit reductions in revenues, margins and investments, and decreases in employment levels as well. The **internet and software companies continue to fly high,** but the **large-scale distribution** and **food industry groups** have also managed to ride the wave of changes in lifestyle and purchasing habits engendered by the pandemic, as life becomes increasingly defined by the new technologies. Performances in the coming months will continue to be driven by the effects of the healthcare crisis, albeit diversified by sector of operation, until the vaccination campaigns have finally been completed.

Large multinationals in 2020: best and worst performers

The **total sales** posted by the world's largest multinationals on average **were down 3.1%** on FY 2019, with considerably **diversified performances between the sectors**. The best performers were clearly the internet and software companies, which continue to grow (up 19.5%), followed – at some distance – by those operating in large-scale distribution (up 8.5%), food (up 7.9%), electronics (up 5.4%), and the pharmaceutical companies (3.0%). The telecommunications and digital payments industries showed resilience, with total sales largely flat (down 0.6% and 0.7% respectively), whereas the oil & gas giants were hit very hard, posting a 32.9% reduction in total sales, as were the aircraft manufacturers (down 26.8%), the fashion industry operators (down 17.3%) and the automotive groups (down 12.1%). **Looking at the figures by geography**, total sales posted by multinationals based in the Pacific Asia area and the Americas were virtually unchanged, the Chinese groups delivered an 11.2% increase in revenues, but the EU-based companies suffered most, with total sales down 14.5%, and in particular the Italian multinationals, which saw a 29.0% reduction, due to the lack of operators in the new economy and electronics segments.

Internet/software, electronics, food and large-scale distribution all increased their turnover year-on-year in each of the four quarters of 2020; while the telecommunications and automotive industries both resumed growth in 4Q after three quarters of reductions. By contrast, the multinationals operating in the beverages, fashion, aircraft manufacturing and oil & gas sectors reported contractions in each of the four quarters of 2020.

There was also an average reduction at the **operating profit level, with EBIT decreasing by 14.9% relative to 2019,** due to the strong difficulties reported by the aircraft manufacturers (which posted a loss at the Ebit level), oil & gas giants (down 84.6%), fashion companies (down 47.9%), and the automotive industry operators (down 41.5%). Meanwhile, the multinationals operating in the internet and software sector posted a double-digit increase (24.7%), as did the large-scale distribution operators (up 18.4%) and the electronics groups (up 16.9%).

The multinationals' average **Ebit margin** also shrank, and was **14.7% lower than the 17.4% margin reported in 2019 (2.7 percentage points lower)**. The electronic payments sector was the most profitable, recording the highest Ebit margin in 2020 of 28.7% (down 5.7 pp on 2019), followed by the beverages industry (27.8%; down 3.4 pp). Substantial reductions were recorded in the oil & gas industry (down 12.8 pp, Ebit margin 4%) and by the aircraft manufacturers (down 14.0 pp, Ebit margin negative).

There was also a widespread reduction in **capex (down 2.0% on 2019)**, with major decreases reported by the fashion industry multinationals (down 30.6%), aircraft manufacturers (down 26.4%) and the oil & gas giants (down 25.3%) which responded to the crisis by deferring their projects with a view to presenting them again in the future, when the scenario has normalized. By contrast, there was a sharp increase in capex by the internet and software companies, up 32.3%, followed at a distance by the digital payments sector (up 11.9%) and the pharmaceutical companies (up 10.1%). The latter also posted a 4.8% increase in spending on research and development. Increases in spending on investments were also recorded by the groups in electronics (up 6.7%), the food industry (up 6.1%) and in telecommunications (up 2.3%).

Despite the material reduction in the number of hours worked in 2020, the generalized adoption of measures to safeguard **employment levels** coupled with the economic recovery in China prevented the number of people in work across the world from plummeting. Indeed, the largest multinationals' workforce rose slightly year-on-year, by 1.5%, on the back of hirings by the internet and software companies (whose workforce increased by 29.6%) in tandem with the growth in its business volumes. Excluding this sector, which is dominated by the US and Chinese giants, the aggregate workforce would have decreased by an average 1.3%. The US companies, driven by the high tech firms, saw their workforces increase by 7.1%, whereas European multinationals saw theirs reduce by 0.9%; the headcount of the Italian groups in particular decreased by 4.0%.

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Covid-19 and stock market capitalization

Following the losses reported in 1Q 2020, **the aggregate market capitalization** of the largest multinationals as at 26 March 2021 **was 15.4% higher than the figure based on market prices at year-end 2019**. The best stock market performers were the electronics industry companies, whose share prices put on 41.9%, and the internet/software operators (up 37.4%). Announcement of the first anti-Covid vaccine in November 2020 benefited the pro-cyclical sectors, in particular the automotive industry where share prices rose by 39.0%, even though the downward trend in sales by the sector has not yet been reversed. Conversely, double-digit reductions in share prices were reported by the aircraft manufacturers (down 25.6%), the oil & gas giants (down 13.9%), and the drinks industry multinationals (down 10.1%).

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