AREA STUDI MEDIOBANCA

ALL SET FOR THE ITALIAN PRODUCTIVE SYSTEM TO RECOVER: GROWTH OF 7.7% EXPECTED IN 2021

Total sales down to 11.7% in 2020, investments down to 8.2%.
Strong increases in liquidity (up 24.1%) and debt funding instruments (up 9.7%), but no impact on capital structure due to revaluations that could generate tax benefits for years to come.
Medium-sized enterprises saw sales climb by 11.9% over the decade (exports up 27.5%), despite the 2012-13 and 2020 crises.
Growth of 7.7% expected for the Italian productive system in 2021 (6.5% in 2022).

Milan, 23 September 2021

The Mediobanca Research Area has today presented the new edition of its annual survey of Financial Aggregates for large and medium-sized Italian companies operating in the manufacturing and services sectors, which covers the ten years from 2011 to 2020. A total of **2,140 Italian companies** are included, representing 47% of total sales in industry and in manufacturing, 36% of total sales in the transport sector, and 38% of total sales in the retail distribution sector (weightings based on Istat data). Non-Italian companies included in the survey make up 53% of the firms which employ more than 250 staff in Italy, and 90% of the manufacturing firms alone. Virtually **all Italian companies with more than 500 staff and approximately 20% of the medium-sized manufacturing companies** are included in the survey.

In terms of **ownership structure**, at year-end 2020 the total sales reported by the 2,140 companies broke down as follows: 19% are made up by 143 companies owned by the Italian public administrations, 47% by 1,427 companies owned by Italian private individuals, and 34% by 570 companies owned by non-Italian entities and individuals (public and private).

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WHAT AND WHERE DOES 2020 LEAVE US?

The total sales recorded by Italian leading companies in 2020 decreased by 11.7%, not as bad as the 14.7% reduction reported in 2009. **State-owned companies** shed 16.8%, because of their strong involvement in oil and gas (which saw revenues fall by 34.7%) and the energy industries (total sales down to 12%). The **private sector** performed slightly better, with total sales down to 10.4%, due to its increasing exposure to **manufacturing industries** which managed to keep their losses down to 8.4%.

Total sales by the Italian industrial companies fell back to below the levels recorded at the start of the ten-year period (a reduction of 9.3%), impacted by the two crises in relatively close succession (2012-13 and 2020). The manufacturing sector managed to buck this trend, with total sales higher in 2020 than in 2011 (by 2.6%), but the really impressive performance was experienced by the **medium-sized enterprises, whose 2020 turnover was 11.9% higher than that reported in 2011**, together with the broad range of businesses known as the **fourth capitalism (total sales 6.9% higher)**. Narrowing the analysis to sales by exports, the MSEs' performance is even more outstanding: total sales 27.5% higher in 2020 than in 2011.

The slowdown in production in 2020 also impacted on profitability. The net profit reported by the 2,140 companies was down to 32.5%, and the ROE decreased from 8.1% to 4.9%. In 2009 the reduction for the twelve months was 27.4%, while ROE fell from 8% to 5.8%, but the difference in 2020 was the benefit of a **one-off tax realignment for goodwill** (the so-called "August" decree), without which the reduction in net profit would have been 54.3% and the ROE 3.4%. In general all earnings margins saw heftier reductions than turnover in 2020, **despite labour costs decreasing by 4.8%**, an unprecedented amount, due to the Covid-related layoff measures without the firms' participation. **The labour force shrank by 0.9%**, less than half the 2.3% cuts made in 2009. **Financial management** also offered some partial relief to suffering balance sheets, helped by the exceptionally low average cost of borrowing (2.6%, compared with 4.5% at the start of the decade), the moratoria measures introduced, and the injection of huge doses of liquidity. **Taxes** were down to 19.3%, with the tax rate unchanged at 20.9%. **Some 22% of the tax burden in 2020 consists of withholding taxes**.

Investments were down to 8.2% in real terms versus 2019, with the stability in the public-owned companies (investments down just 0.2%) offsetting the marked reduction in the private sector (down 11.6%). The contraction in investments was more substantial in 2009, down to 17.7%, reflecting a 13.7% reduction in the public sector and a 19.6% decrease in the private sector.

WHO SANK AND WHO SWAM IN 2020?

Few sectors managed to defend or increase sales in 2020, but in some cases specialized segments within them managed to do so. **Food products** were the standout performer here, a sector which includes **preserved foods** (up 3.5%), outstanding performances in fruit and vegetable preserves (up 10.3%), and prepared meals and dishes (up 10.6%), **other food products** (up 3.4%) – with impressive performances from sugar production (up 12.7%) and food pastes (up 8.5%) – and **dairy products** (up 0.6%). **Beverages** recorded a reduction of 5.2%, a sector that also includes **wines** which showed greater resilience (down 3.9%). Top-line increases were also reported by manufacturers of **electric domestic appliances** (up 2.9%) and by the **pharmaceutical industry**, both basic products (up 0.8%) and compounds (up 0,6%). In the services sector, **retail distribution** was driven by food distribution (up 5.9%), while the non-food sector shrank considerably (down 12.8%), attributable in particular to clothing (down 33.6%). Also in the **transport** sector there were some uneven performances: air travel saw sales contract by 58.3%, rail travel by 35.4% for **persons** and 10.4% for **freight**, while **freight traffic by road** grew by 2.8%.

The performances recorded by all the other areas of operation were negative: from the hardest-hit, such as **tourism (down 70.7%) and theme parks (down 73%)**, to textiles (down 24.9%), clothing (down 20%) and hide/leather accessories (down 27%), followed by iron and steel (down 11.7%) and transport means construction (down 11.6%). There were also substantial reductions in the construction firms (down 16%), the rubber and cable manufacturers (down 12.5%), systems (down 12.4%), and printing/publishing (down 11.9%). The following sectors managed to keep their **reductions to single digits:** cosmetics (down 9.6%), chemicals (down 8.5%), paper (down 8.3%), wood and furnishing (down 8.2%), mechanical engineering (down 7.4%), and electronical engineering (down 6.6%). Also here there were some specific dynamics within sectors as a whole, as was the case, for example, of medical/healthcare products in the paper industry (where sales rose by 5.5%).

	Chg. % total sales 2020-19	**Chg. % total sales since 2011**
TOTAL	-11.7	-9.3
Public sector companies	-16.8	-25.8
Private sector companies	-10.4	-4.3
Manufacturing	-8.4	+2.6
Medium-Sized Enterprises	*-5.8*	*+11.9*
Medium-Large Firms	*-8.4*	*+4.9*
Industrials	-12.9	-11.8
Service sector	-7.2	+0.1
Non-Italian-owned	-11.3	-12.6
Clothing	-20.0	-3.1
Beverages	-5.2	+28.8
Dairy	+0.6	+5.1
Preserved foods	+3.5	+27.0
Confectionary	-4.1	+2.8
Other food	+3.4	+10.2
Paper	-8.3	-4.8
Chemicals	-8.5	-8.5
Means of transport construction	-11.6	+21.7
Retail distribution	+1.8	+25.0
Electric domestic appliances	+2.9	-7.8
Electronics	-6.6	-9.8
Radio/TV broadcasting	-4.4	-13.5
Electricity and gas	-12.0	-18.6
Pharmaceuticals/cosmetics	-0.3	+9.6
Rubber and cables	-12.5	-14.6
Systems	-12.4	-29.7
Construction firms	-16.0	-2.5
Wood and furnishing	-8.2	+10.6
Mechanical engineering	-7.4	-0.1
Iron and steel	-11.7	-4.3
Hides and leather	-27.0	+3.7
Oil and gas	-34.7	-51.9
Construction industry products	-5.8	-15.7
Public service utilities	-25.2	-5.9
Printing and publishing	-11.9	-41.1
Telecommunications	-1.8	-22.7
Textiles	-24.9	-15.8
Transport	-13.8	+3.9
Glass	-5.1	+5.9

THE SUNNY SIDE: WHY WE SHOULD LOOK TO THE FUTURE WITH OPTIMISM

The ever-increasing protection offered by the rollout of the vaccination campaigns and the resumption of international exchanges both represent grounds for optimism, without forgetting concerns linked to trends in the prices of commodities and the removal of the support measures introduced in 2020. Furthermore, in the last year companies have adopted behaviours intended to leverage the recovery as effectively as possible. The **low interest rates** have made it possible for **substantial amounts of money to be borrowed**. Indeed, the debt taken out in 2020 reached an amount not seen since 2007, **96.3% of which consists of medium-/long-term borrowing,** to the extent that by end-2020 this component represented 70% of the total financing, the highest share seen since the start of the decade. This rebalancing of the maturity profile has given greater stability to the debt structure. The second aspect of interest here is the **concurrent increase in cash and liquid assets, which was up 24.1% in 2019**, in particular cash itself (up 31.5%). The **2,140 companies' cash piles have grown consistently in relative terms between 2011 and 2020**, from 4.2% of total assets to 7.9%. This increase has in turn generated interest income which has improved the net result from financial operations. The liquidity reserves function both as prudential buffers and as funds for use in investments. The third issue to emerge from the analysis of the companies' balance sheets for 2020 is that **the higher debt levels taken on have not compromised the capital solidity of the aggregate**: the ratio of cash-to-debt even increased from 21% in 2019 to 23.8% in 2020, while the debt/equity ratio rose only marginally, from 83% to 88.4%. The fundamental stability of the debt/equity was made possible **by the substantial asset revaluations** introduced by law (the so-called "August" decree). These resulted in net equity reserves being established in an amount of €24.2bn, equivalent to approx. 70% of the extra borrowings. This is a huge, one-off item which is unprecedented in recent history. Indeed, the last measure of a similar kind was in 2000, involving an amount of €15bn (€19.8bn at current prices). **The 2020 asset revaluation, unlike previous ones, primarily involved intangible assets** (55.3% of the total), followed by tangible assets (36.6%) and equity investments (8.1%). In return for an effective withholding tax rate of around 3.5% (which has produced €870m in additional income for the Italian revenue authority), Italian companies have acquired **the possibility of deducting higher depreciation and amortization charges starting from 2021, with the related benefit that this brings in tax terms**.

One last driver that provides grounds for optimism for the coming years: the Italian production system anticipates **growth of 7.7% in 2021, followed by 6.5% in 2022**.