

European non-financial listed groups: analysis of 2015 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
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EUROPEAN NON-FINANCIAL LISTED GROUPS: ANALYSIS OF 2015 DATA

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IMPORTANT INFORMATION ABOUT THE SOURCE USED (ERICA¹ DATABASE) AND ABOUT THE FIGURES BY COUNTRY

The data used in this study are 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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I. EUROPEAN NON-FINANCIAL LISTED GROUPS: INTRODUCTION AND MAIN FINDINGS FROM 2015 DATA

This document presents the results of the analysis performed by the members of the ECCBSO's ERICA WG of the information available in the ERICA 2015 database (almost 1,000 listed non-financial groups, with € 6,600 billion in assets, and € 4,000 billion in revenue), with the more relevant facts for the year, about profitability and financial structure of European listed non-financial groups. The document is complemented by statistical annexes (only available in the version distributed via www.eccbso.org) and other documents, called "the ERICA series", which offer deeper analysis of consolidated groups regarding a variety of themes (dividend trends, cash flow statement analysis, employment, revenue variance and others, some of them currently under development).

The current report uses three different samples:

- A static sample: This sample includes all groups for which data is collected in ERICA for the year 2015. The static sample consists of about 980 groups.
- A sliding sample: This sample is obtained by selecting all groups for which data is collected in ERICA for both 2014 and 2015. The sliding sample encompasses 895 groups. Here, no change of sector or size is allowed.
- A fixed sample: This sample only takes into account those groups for which data is collected in ERICA for each year during the 2011-2015 period. 713 groups are captured in the fixed sample.

Each sample is compiled by country and by sector, depending on the type of analysis. In the samples by country, the country doubles (i.e. subsidiary groups of a higher-level group that is allocated to the same country) have been removed; in the samples by sector, the sector doubles (i.e. subsidiary groups of a higher-level group that is allocated to the same sector) have been removed. Furthermore, the static and the sliding samples are made up by size classes. They are adjusted by eliminating global doubles (i.e. subsidiary groups of a higher-level group that is also included in the sample)². For all conclusions derived from the total data, the same constraints (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 2015 data are:

1 The slight recovery in results and profitability that started in 2014, continues in 2015

Both aggregated revenue and operating profit (EBIT) declined in 2015, but this trend is entirely driven by energy groups and some large outliers in France, Germany and Spain. Excluding these large energy groups and outliers, revenue and EBIT rose by 4.9% and 6.8% respectively. Owing to the significant impact of the big energy groups and some outliers, further profitability measures were not only analysed on the basis of weighted average figures, but also on median values. The median figures show an improvement in the EBIT ratio, the cash flow ratio and return on equity, while the EBIT margin remains stable. In the (smaller) fixed sample covering the last five years though, EBIT margin reaches its lowest level under the influence of the industry and energy sector. In 2015, Portuguese and Spanish groups were the most profitable (median EBIT margin of more than 7%), while the median EBIT margin for Italian groups fell to 5.2%, i.e. the lowest level in the country-by-country comparison.

² All country doubles are by definition global doubles as well.

2 Both the equity and debt ratios remain stable in 2015, but the cash position weakens significantly

As in 2014, total equity grew at a comparable pace, resulting in a fairly stable equity position, even over a five-year period. All sizes and sectors show a rise in equity, except the energy sector due to losses incurred by some large groups. The change in the financial debt position is comparable. The increase does not result in a higher debt ratio. Over a time horizon of five years, however, a very modest decline is noted. At country and branch of activity level, the time horizon analysis reveals much more variation and divergence.

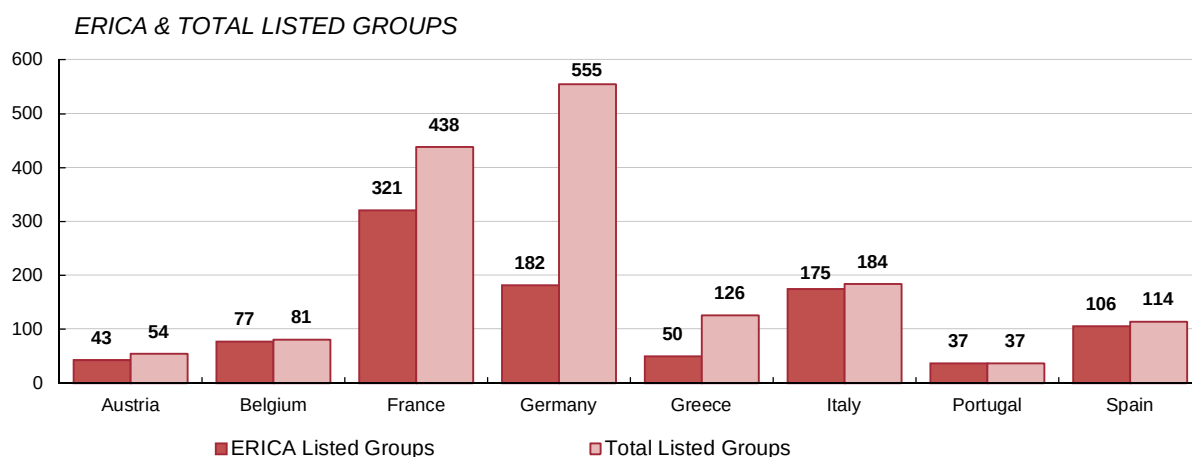
The reduced cash position in 2015 resulted in a lower liquidity ratio, supported by all sectors and sizes, except the construction sector and the medium-sized groups.

Finally, a first analysis of goodwill also reveals stability over time, but the share of goodwill in total assets differs significantly from country to country, with the highest proportion in Belgium and the lowest in Greece.

II. ERICA DATABASE: COVERAGE AND MAIN FIGURES

The coverage of the ERICA database in absolute terms involves a number of studied listed groups for 2015 ranging from 37 real cases in Portugal and 43 in Austria to 182 in Germany and 321 in France.

CHART 1 LISTED GROUPS BY COUNTRY (absolute number)



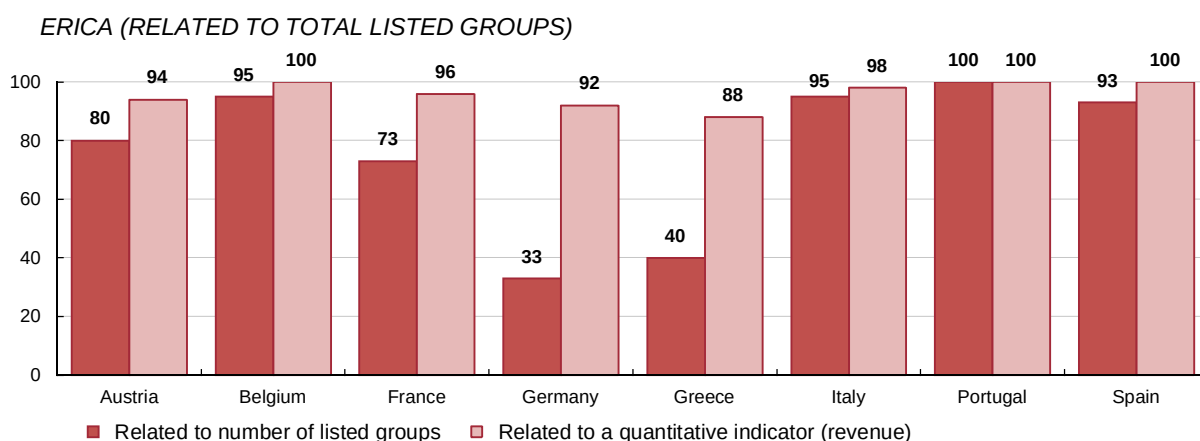
Source: ERICA 2015 and national databases.

Coverage of the ERICA database in terms of a quantitative indicator (revenue) shows that ERICA is highly representative of the total population of listed European non-financial groups: coverage is very high for all countries, varying from 88% in Greece to 100% in Belgium, Portugal and Spain.

In relative terms, comparing the ERICA database with the total population of listed groups, the coverage rate varies between 33% in Germany or 40% in Greece and 100% in Portugal of all listed groups.

These figures refer to the total sample, considering the double accounting filtering process that has been considered in the different analyses conducted in order to exclude country duplications.

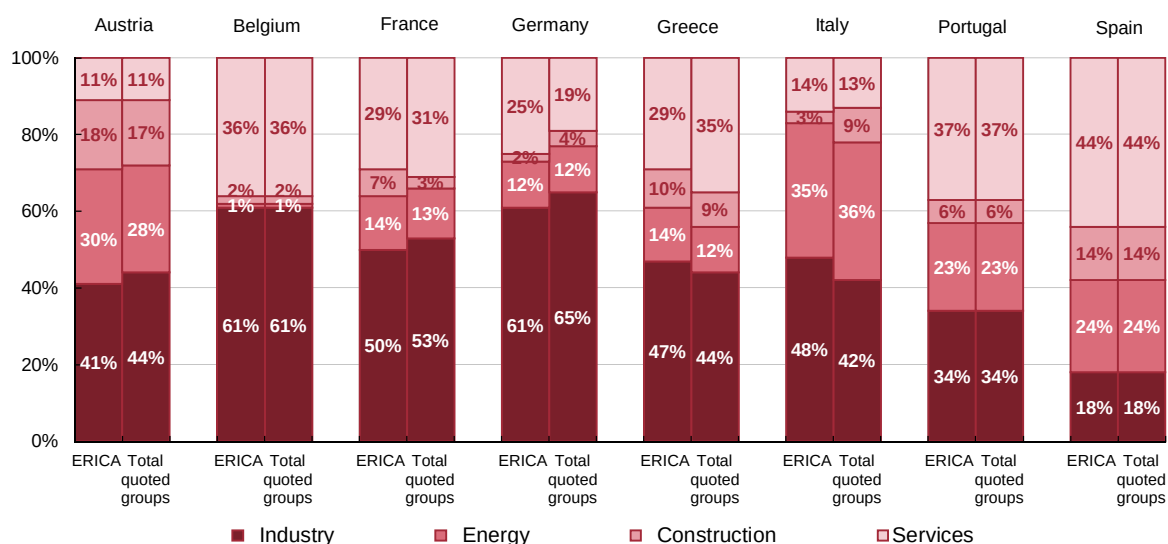
CHART 2 COVERAGE OF DATABASE



Source: ERICA 2015 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 most of the countries apart from Spain. The construction sector accounts for a large slice of the market in Austria and Spain, while in other countries it plays a minor role. The energy sector in the ERICA database has a high share of the market principally in Italy, and to a minor extent in Austria, Portugal and Spain. Finally, the services sector is important in almost all the countries, being especially relevant in Spanish listed groups.

CHART 3 STRUCTURE BY COUNTRY AND SECTOR (RELATED TO REVENUE) – ERICA



Source: ERICA 2015 and national databases.

III. PROFITABILITY: SLIGHT UPWARD TREND CONTINUES, ONGOING PRESSURE ON ENERGY

Profitability, along with the financial structure analysis carried out in this document, is based on financial data for 2015, 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. Depending on the purpose of analysis, the samples are consolidated.

TABLE 1 ERICA: OVERVIEW OF AGGREGATED PROFITABILITY VARIABLES 2015

In billion EUR	Number	Total assets	EBIT	Operating cash flow	P/(L) before tax	Revenue
By country.....						
Austria.....	43	140.07	3.22	10.92	2.13	92.90
Belgium.....	77	251.45	19.28	23.30	16.47	154.02
France.....	321	2,253.65	87.12	163.36	76.18	1,328.44
Germany.....	182	2,118.02	85.92	119.31	77.93	1,570.24
Greece.....	50	68.78	2.67	4.13	1.26	43.88
Italy.....	175	974.42	26.80	52.55	15.20	457.37
Portugal.....	37	102.21	6.01	8.81	3.80	71.56
Spain.....	106	741.16	28.29	54.38	18.16	368.92
Total.....	991	6,649.76	259.32	436.76	211.13	4,086.62
By sector.....						
1. Industry.....	428	3,072.41	143.66	203.67	129.37	2,099.00
2. Energy.....	51	1,406.68	11.89	67.25	3.15	654.69
3. Construction.....	51	274.07	11.18	14.74	7.32	187.99
4. Services.....	453	1,850.13	88.83	145.46	67.73	1,107.55
5. Not classified.....	3	2.98	0.10	0.16	0.10	1.27
Total.....	986	6,606.26	255.67	431.28	207.65	4,050.51
By size (revenue).....						
1. Small groups (<250mn).....	424	125.56	5.32	4.17	4.35	41.44
2. Medium (250mn-1,5bn).....	301	390.01	21.75	21.36	16.52	210.64
3. Large groups (>1,5bn).....	254	6,067.09	228.56	405.25	187.20	3,781.00
Total.....	979	6,582.66	255.63	430.78	208.07	4,033.08

Source: ERICA 2015 static sample.

Note: The number of firms by country and by sector or by size are different : some double accounted groups belong to different countries but are in the same sector.

Chapter II shows how highly representative the ERICA database is for non-financial listed groups. Table 1 gives a breakdown of the 2015 ERICA sample by country, sector and size, and thus reveals the high proportion of French and German groups in ERICA (as is the case in the total population): almost 51% in terms of the number of groups and between 65% and 73% in terms of other quantitative indicators (such as total assets and revenue). With regard to size, for all variables analysed in this chapter (assets, revenue, EBIT, cash flow, 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 47% in terms of total assets and rises to 56% when it comes to EBIT. The second biggest sector of activity in terms of total assets and EBIT is services; both services and industry cover 89% of the number of groups analysed.

III.1 EBIT: ALL SECTORS EXCEPT ENERGY ACHIEVED IMPROVEMENT, PARTICULARLY INDUSTRY (AFTER ADJUSTING OUTLIERS)

After a slight recovery in 2014, the EBIT of European listed groups show a sharp decline once again in 2015 on an aggregate basis. The trend differs substantially across countries and sectors though, following the sector specific compilation of the countries datasets. Moreover the country, sector and size samples are partially biased by major impacts of single large groups.

Due to the ongoing pressure on the energy sector (-74% in EBIT), the countries with a large share of energy groups in their sliding sample (sectoral breakdown visible in Chart 3), especially Austria and Italy, but also Germany to a lesser extent, are influenced negatively. The aggregate EBIT for France, Germany and Spain is instead driven by the negative performance of single large groups (France: Total, Germany: Volkswagen, Spain: Repsol), which also has a major impact on the aggregate performance of the related industry sector. Excluding these three large groups from the aggregate sample, the industry sector registers growth in EBIT of 10.4% instead of a decline of 11%.

Regarding group size, the small groups boosted their EBIT by 55.9%, while the large groups showed a 18.6% reduction. Taking the large energy sector groups (25 groups) and the three outliers of France, Germany and Spain out of consideration, the EBIT of large groups increases by 6.1%.

In total, adjusted EBIT turns from -16.4% to around +6.8% when large energy groups and outliers are excluded.

TABLE 2 RATE OF CHANGE IN % (2014 - 2015)

	EBIT	P/(L) bef. Tax	Revenue	Total Assets
By country				
Austria	-37.6	-42.6	-9.8	0.4
Belgium	6.2	5.6	8.6	8.4
France	-20.2	-18.4	-8.7	-0.7
Germany	-16.5	-13.9	6.6	6.7
Greece	46.6	123.1	-12.7	0.8
Italy	-13.4	-35.5	-13.3	0.7
Portugal	9.8	12.7	-2.7	-1.4
Spain	-22.1	-33.4	1.1	2.0
By sector				
Industry	-11.0	-12.3	-4.3	2.7
Energy	-73.7	-89.5	-6.9	-1.3
Construction	2.3	-16.5	1.1	-1.9
Services	1.3	0.8	5.5	5.8
By size (revenue)				
Small groups (<250mn)	55.9	79.4	3.6	6.5
Medium (250mn-1,5bn)	6.3	-4.1	7.0	7.7
Large groups (>1,5bn)	-18.6	-19.9	-2.5	2.0
Total	-16.4	-18.0	-2.0	2.3
Total adjusted (excl. large energy groups and outliers)	6.8	6.7	4.9	

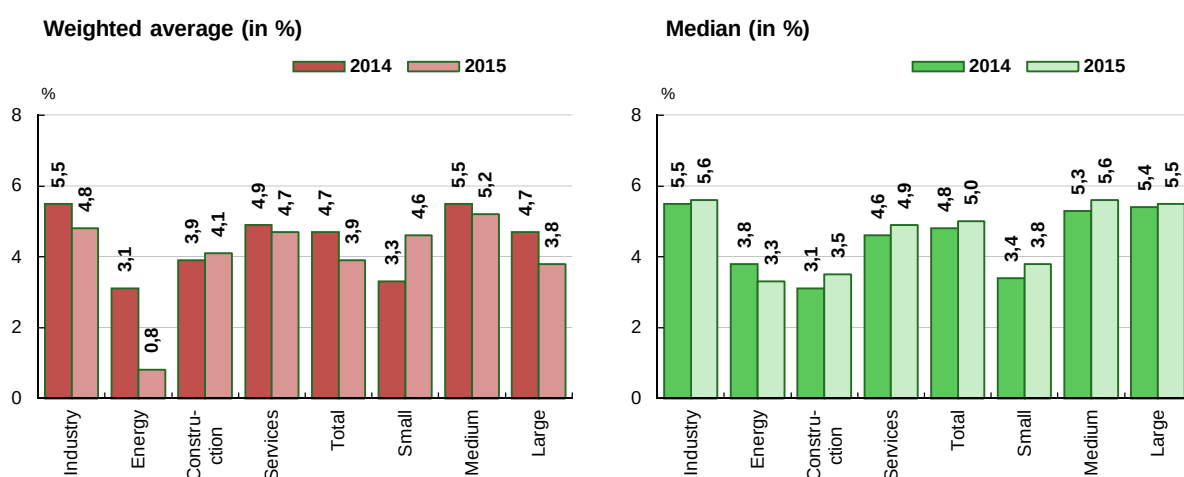
Source: ERICA 2015 sliding sample.

Aggregate revenue also showed a decline by 2% in total. In accordance with the movement in EBIT, the drop in revenue is traced back to the energy sector and is biased in particular by the outlier in the

French group sample. Accordingly, the country data for Austria, Italy and France as well as the sample of large groups are impacted once more. Excluding the outliers and large energy groups, change in revenue moves up from -2% to +4.9%.

Profitability analysis is based on the ratio of EBIT to total assets. Considering the above-mentioned major impact of outliers, the weighted average is biased for the industry sector as well as for the sample of large groups and the energy sector. Median values of the ratio represent the behaviour of the population, unaffected by the weight of large groups in terms of total assets.

CHART 4 EBIT RATIO – EBIT / TOTAL ASSETS



Source: ERICA 2015 static sample

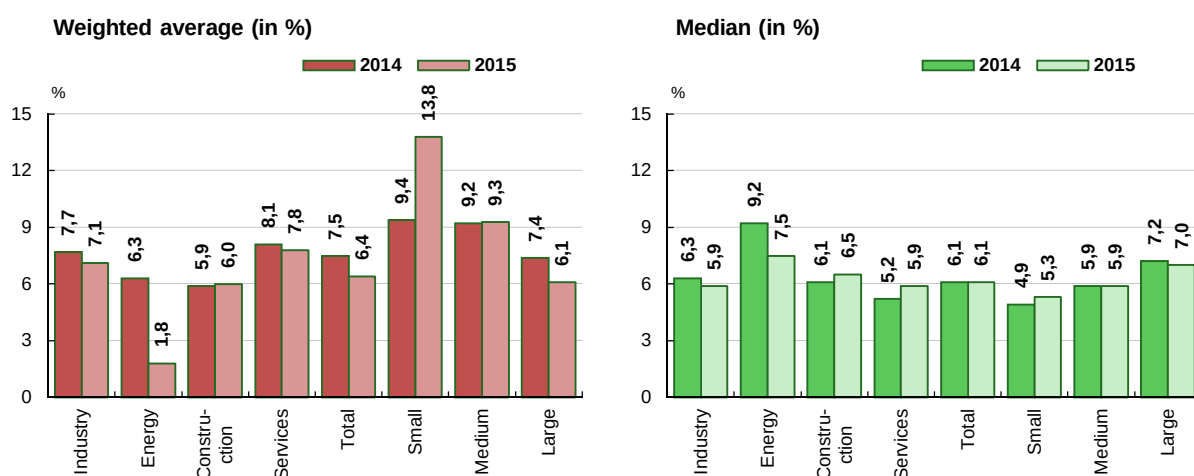
In 2015, the median profitability of listed European groups, increased by another 0.2 of a percentage point (pp) to 5.0%, showing the same growth rate as for 2014. All sectors and group sizes, except the energy sector (-0.5 pp) were able to raise profitability at least on a moderate scale.

The country-by-country breakdown of the median values (see Annex A) points to an increase for Austrian, Belgian, Greek, Italian and Portuguese groups, where the group sample for Greece shows the highest growth rate, albeit starting from a low level (1.9% in 2014). German groups post the highest profitability (5.9%) in comparison to the other ERICA countries but lost 0.4 pp because of lower profitability in the industry sector, which is the most important in the German group sample. For the French group sample as well, the slight decline (-0.1 pp) can be traced back to the industry sector, whereas for Spanish groups the determining sector was energy.

The EBIT margin – measured by EBIT/revenue – remained virtually stable at 6.1% in median terms. The industry (-0.4 pp) and energy (-1.7 pp) sectors as well as large groups (-0.2 pp) faced a fall in median terms and an even more pronounced decline in terms of weighted averages. However, large groups still have the highest margins (7%) in median terms. The group samples for Belgium, Greece, Portugal and Spain showed an increase in median margins ranging from 0.7 pp (Belgium) to 2.8 pp (Greece). Margins of groups in Germany and France declined slightly due to the industry sector's impact and thus showed a similar trend to that observed for the EBIT-to-assets ratio. In 2015, Portuguese and Spanish groups were the most profitable (median EBIT margin exceeding 7%). The margin for Italy's aggregate group sample showed a bigger drop of 0.6 pp and fell to 5.2%, i.e. the

lowest level in the country-by-country comparison. The reduction is reflected in the industry, services and construction sectors, while Italian energy groups posted an increase in their median margin.

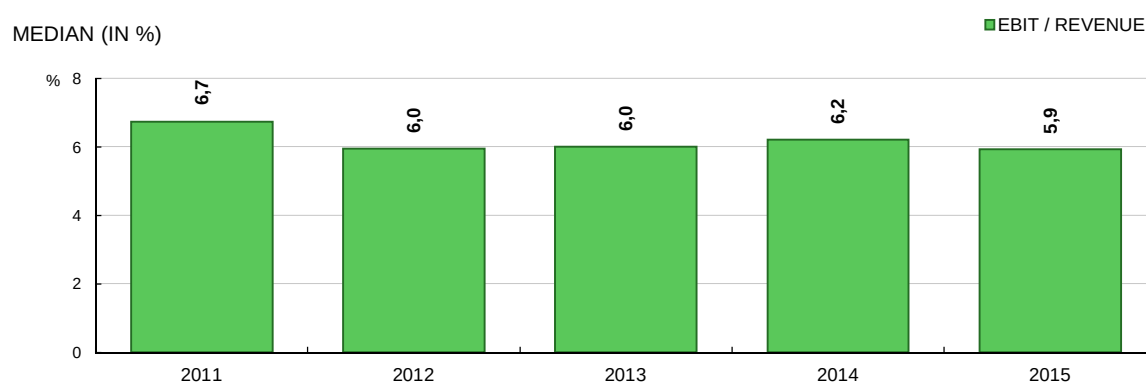
CHART 5 EBIT MARGIN – EBIT / REVENUE



Source: ERICA 2015 static sample

Within a time series covering the last five years of a (smaller) fixed sample of groups, the 2015 median margin dipped just below 2013 and 2012 levels and is thus the lowest margin in this period. This evolution is mainly driven by the industry and the energy sector.

CHART 6 EBIT MARGIN: EBIT / REVENUE TOTAL PERIOD 2011-2015



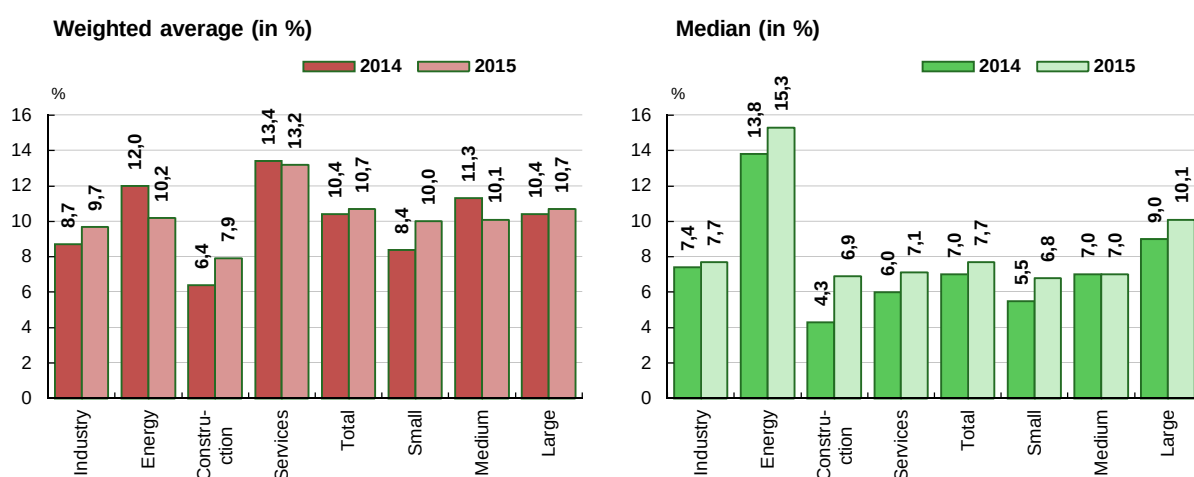
Source: ERICA 2015 fixed sample

III.2 CASH FLOW FROM OPERATING ACTIVITY: FURTHER INCREASE FOR ALL SECTORS IN RELATION TO REVENUE

Whereas in 2014 aggregate cash flow from operating activity increased by 6.7%, growth slowed down in 2015 to 1% due to the energy sector's influence.

Chart 7 shows the proportion of cash flow from operating activity to revenue. The weighted average ratio for all groups amounted to 10.7% in 2015 (+0.3 pp). The median cash flow ratio increased by a further 0.7 pp to 7.7% in total in 2015. All sectors and group sizes except the medium-sized groups showed this upward trend in median terms, although industry as the largest sector in the sample grew on a lower scale (+0.3 pp). The country breakdown reflects an increase in the group samples for all countries except Germany (-0.6 pp) and Greece (-0.2 pp).

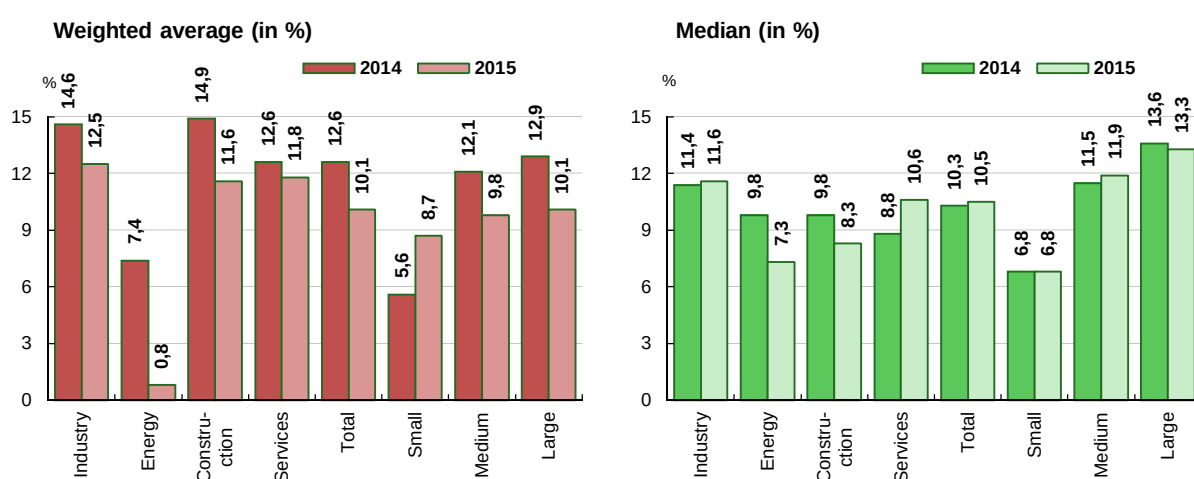
CHART 7 CASH FLOW RATIO – CASH FLOW OPERATING ACTIVITY / REVENUE



Source: ERICA 2015 static sample

III.3 PROFIT (LOSS) BEFORE TAX: IN LINE WITH EBIT EVOLUTION, SLIGHT IMPROVEMENT RELATED TO EQUITY

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



Source: ERICA 2015 static sample

Aggregate profit (loss) before tax showed the same downward trend as aggregate EBIT before adjustments (large energy groups and negative impact of single outliers) and thus slumped by 18%, though total equity grew moderately by 2.6% (see IV.1 Equity; Chart 9).

In relative terms (profits-to-equity ratio), the European groups generated profits amounting to 10.1% in weighted average terms, a deterioration of 2.5 pp on the previous year, due to the impact of outliers and the energy sector. In median terms, however, the groups recorded a slight improvement of +0.2 pp to 10.5%. In contrast to the overall trend, the energy and construction sectors declined by -2.5 pp and -1.5 pp respectively. Large groups are still generating the highest return on equity but also on a slightly lower level than in 2014. All groups - except Spanish groups - made some improvement in median terms, with the best performance coming from Portuguese groups (+3.6 pp).

IV. FINANCIAL POSITIONS UP SLIGHTLY OVERALL, BUT COMPLEX DEVELOPMENTS BY COUNTRY, SIZE AND SECTOR

The ERICA dataset provides information on listed corporate groups in continental Europe. For the year 2015, almost 1,000 groups are covered, giving a relevant assessment of the non-financial sector in Continental Europe, although a few large groups are missing. Based on data for these enterprises with assets worth approximately € 6,600 billion, this chapter provides an analysis of the essential balance sheet positions. As the 254 largest groups represent more than 92% of total assets in 2015, they dominate the aggregate figures.

TABLE 3 ERICA: OVERVIEW OF AGGREGATED FINANCIAL STRUCTURE VARIABLES 2015

In billion EUR	Number	Total assets	Financial debts	Cash	Equity
By country					
Austria	43	140.07	38.06	11.23	56.43
Belgium	77	251.45	81.53	18.65	90.74
France	321	2,253.65	584.97	194.78	778.32
Germany	182	2,118.02	670.61	122.32	619.95
Greece.....	50	68.78	22.46	8.35	24.17
Italy	175	974.42	335.08	76.47	255.30
Portugal.....	37	102.21	43.56	5.99	29.43
Spain	106	741.16	278.77	45.05	227.20
Total.....	991	6,649.76	2,055.03	482.83	2,081.53
By sector.....					
1. Industry	428	3,072.41	919.18	251.16	1,055.69
2. Energy.....	51	1,406.68	400.91	62.54	374.12
3. Construction.....	51	274.07	92.43	33.04	63.55
4. Services	453	1,850.13	636.22	133.89	570.87
5. Not classified	3	2.98	1.03	0.38	1.31
Total.....	986	6,606.26	2,049.78	481.01	2,065.53
By size (revenue)					
1. Small groups (<250mn).....	424	125.56	46.86	10.10	56.46
2. Medium (250mn-1,5bn).....	301	390.01	136.03	33.04	156.81
3. Large groups (>1,5bn).....	254	6,067.09	1,858.20	435.58	1,844.48
Total.....	979	6,582.66	2,041.10	478.72	2,057.75

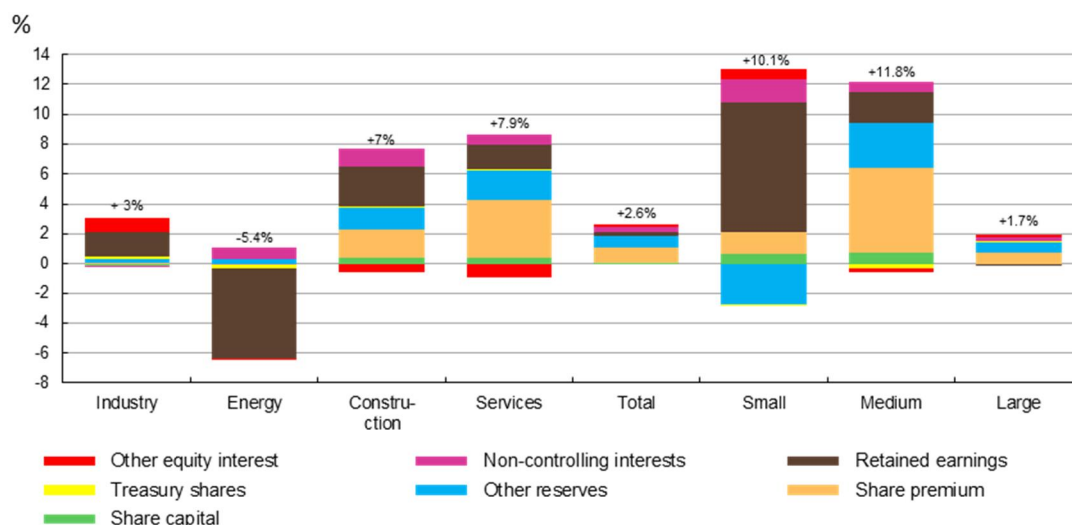
Source: ERICA 2015 static sample.

Note: The number of firms by country and by sector or by size are different : some double accounted groups belong to different countries but are in the same sector. Main figures for 2015 (filter utilized to avoid double sector, size and country accounting) data in billion of €.

IV.1 EQUITY: STABLE EQUITY RATIO IN AGGREGATE, BUT SMALL AND MEDIUM-SIZED GROUPS BOOST EQUITY CONSIDERABLY

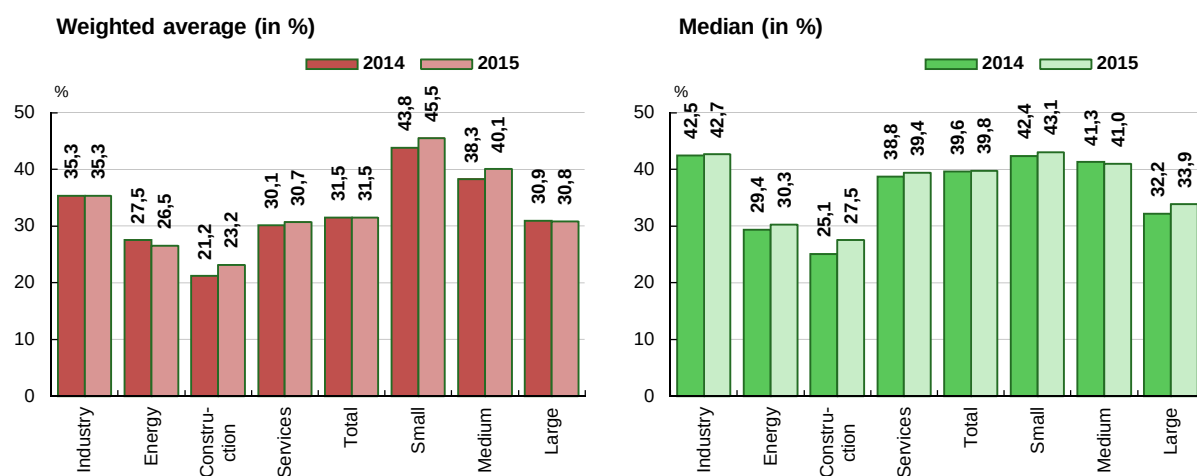
Moderate rise in equity in 2015, share premium main driver

Chart 9 gives an overview of changes in equity in 2015. For different sectors and size classes, the growth contributions of seven classes of equity are presented.

CHART 9 CHANGE IN EQUITY (2014 - 2015)**Change in %**

Source: ERICA 2015 sliding sample

Total equity grew moderately by +2.6%. This is partly due to the growth in industry (3.0%), the largest sector. In construction and services, equity growth was higher (with 7.0% and 7.9%, respectively), whereas in energy, equity fell by 5.4%, due to shrinking retained earnings. This can be explained by the losses incurred by large energy groups in 2015, such as E.ON in Germany, ENI in Italy and Engie and EDF in France. Small and medium-sized groups both experienced strong growth, but the increase in the aggregate was dominated by the large groups. This shows impressively the relative importance of the large groups. The trend was heterogeneous across countries, with Germany, Belgium and Spain experiencing strong growth, and Portugal, Greece and France recording negative changes.

CHART 10 EQUITY RATIO – EQUITY / TOTAL ASSETS

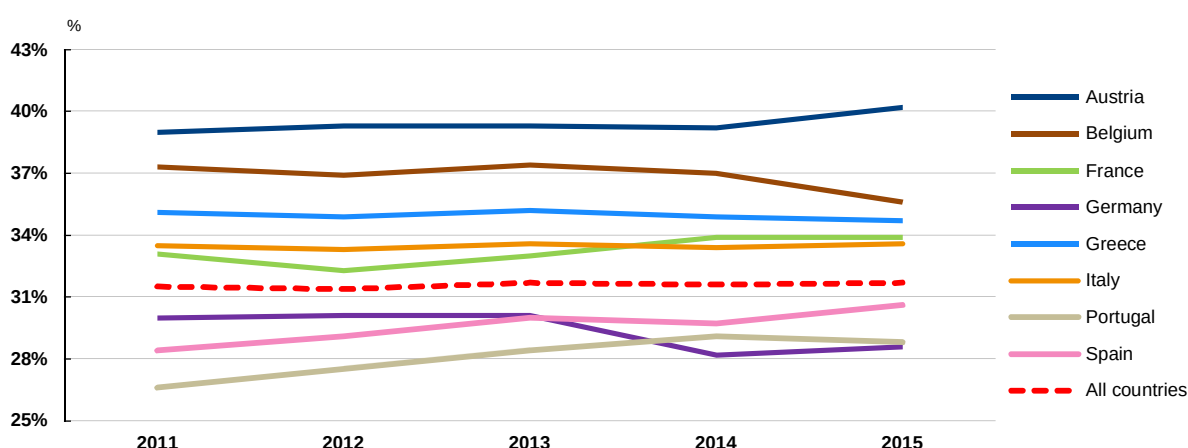
Source: ERICA 2015 static sample

The total equity ratio (weighted average and median) stayed roughly constant, compared to 2014. This is mainly due to the inertia in the two sectors that dominate the aggregate: industry and services.³

Stable equity ratio over the last five years

Based on a fixed sample of 713 groups, charts 11 and 12 reveal that the weighted average equity ratio remained stable at 32% over the period 2011-2015. At a more detailed level, either by country or branch of activity, trends are more clear-cut. The weighted average equity ratio of Spanish groups, for instance, has been gradually climbing towards the overall weighted average. Spain is in fact the only country with a clearly positive trend over the whole period under review. German⁴ and Belgian groups, on the other hand, show exactly the opposite: a downward trend over the five-year period. In 2015, the stable overall equity ratio is the result of divergent patterns. Belgian and – to a lesser extent – Portuguese groups faced a fall in the weighted average equity ratio, while Austrian, German and Spanish groups enjoyed a rise. French and Italian groups kept their equity ratio at the same level.

CHART 11 WEIGHTED AVERAGE EQUITY RATIO PER COUNTRY



Source: ERICA 2015 fixed sample

Broken down by sector of activity, it is clear that not only specific industrial groups, but also IT and real estate groups have relatively high equity ratios on average. The weighted average equity ratio of the IT groups came to 47.3% in 2015, but the median values⁵ remain far below that level. Chart 12 also highlights the fact that not all industrial sub-sectors have high equity ratios on average. The equity ratio fluctuates around a mere 26% for manufacturers of motor vehicles and other transport equipment. These relatively low values are confirmed in the median figures. The weighted average equity ratio of manufacturers of electronic and electrical equipment is influenced significantly by the large groups. The median values are much higher, reaching 49.4% in 2015. A pronounced negative movement over the five-year period is recorded for metallurgy and machinery groups (which might be influenced by falling commodity prices) as well as for energy groups. The opposite trend can be

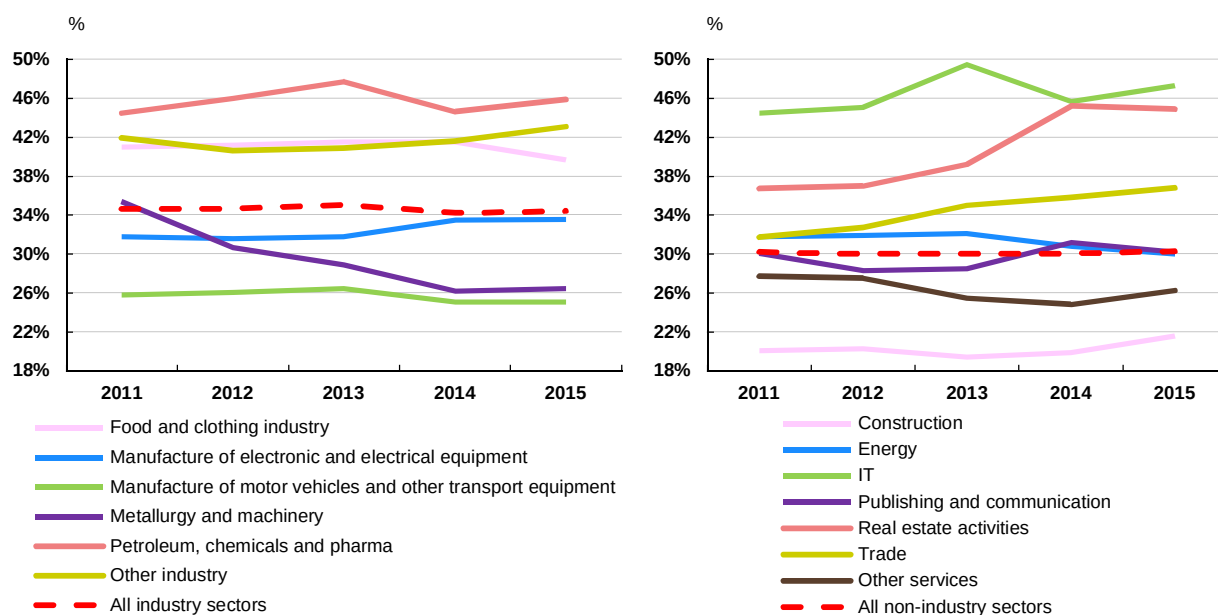
³ The relative weight of industry and services in terms of equity is about 90% and the weight in number of groups is around 80%.

⁴ The reason why German groups have a low ratio in comparison to most of the other countries is that the aggregate is driven by the automotive industry (see Chart 12). Since all automotive companies own financial subsidiaries, their equity ratio is considerably lower than most of the other German groups' equity ratio.

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

observed in the real estate and trade sectors. Except for the real estate sector, these trends are attributable to the large groups.

CHART 12 WEIGHTED AVERAGE EQUITY RATIO PER BRANCH OF ACTIVITY



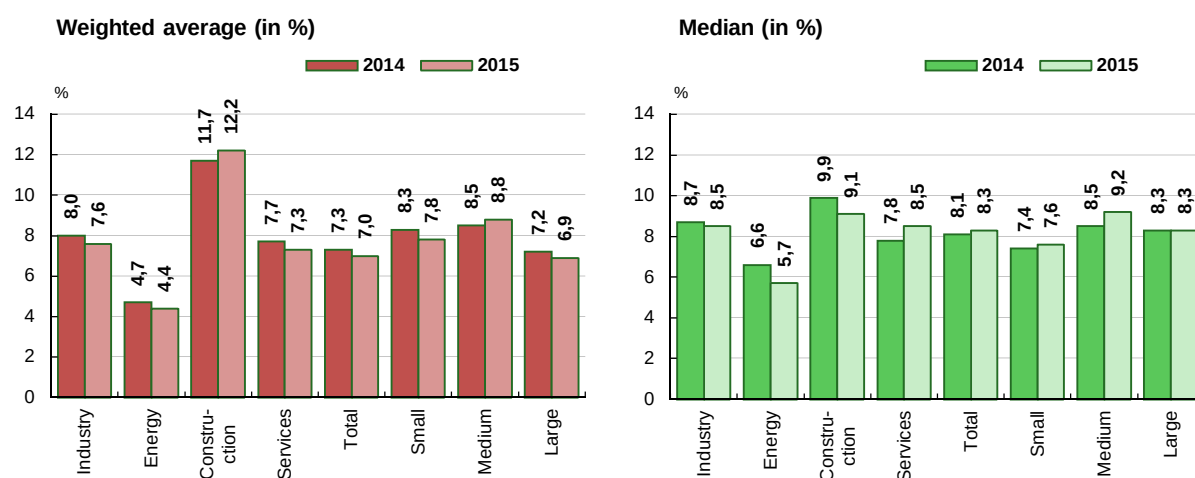
Source: ERICA 2015 fixed sample

IV.2 REDUCTION IN CASH AND CASH EQUIVALENTS

Decrease of liquidity and cash share in 2015

For all companies, management of cash is crucial. It is needed for debt-servicing and is essential to prevent payment defaults.

CHART 13 CASH AND CASH EQUIVALENTS / TOTAL ASSETS



Source: ERICA 2015 static sample

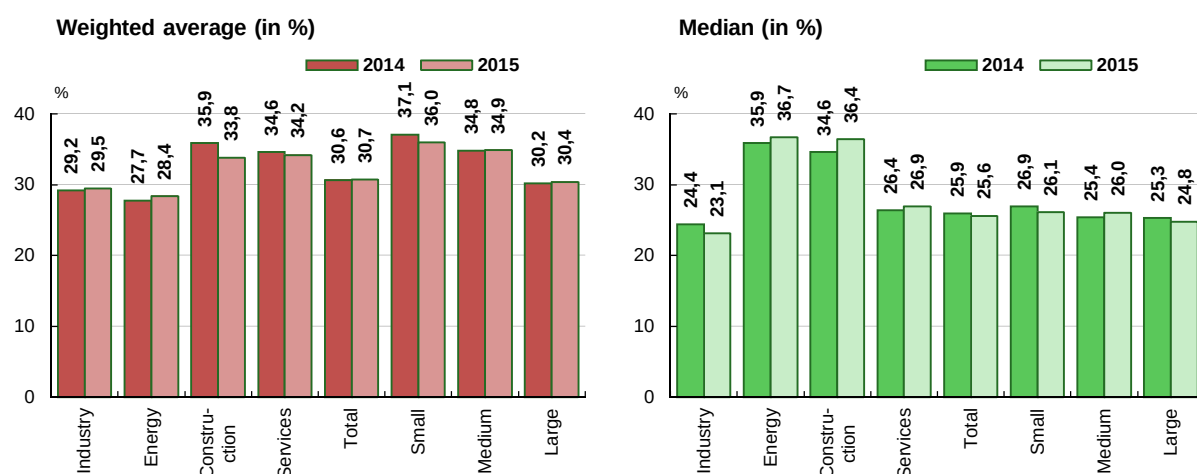
In 2014, a rise in cash and cash equivalent occurred together with a balance sheet extension resulting in stable liquidity ratios. In 2015, liquidity dropped sharply by 2.2%. This resulted in a decline of the liquidity share. As in the case of equity, this development was driven by large groups. Only the medium-sized groups registered an overall positive development. On a sectoral level, all branches except construction experienced a reduction in the aggregate liquidity ratio. The energy sector posted a 7.1% reduction in cash and cash equivalents; the percentage decrease was even stronger than the drop in equity.

IV.3 MODERATE INCREASE OF FINANCIAL DEBT, BUT LARGELY STABLE RATE OF INDEBTEDNESS

Different financial debt development across sectors

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

CHART 14 FINANCIAL DEBT / TOTAL ASSETS



Source: ERICA 2015 static sample

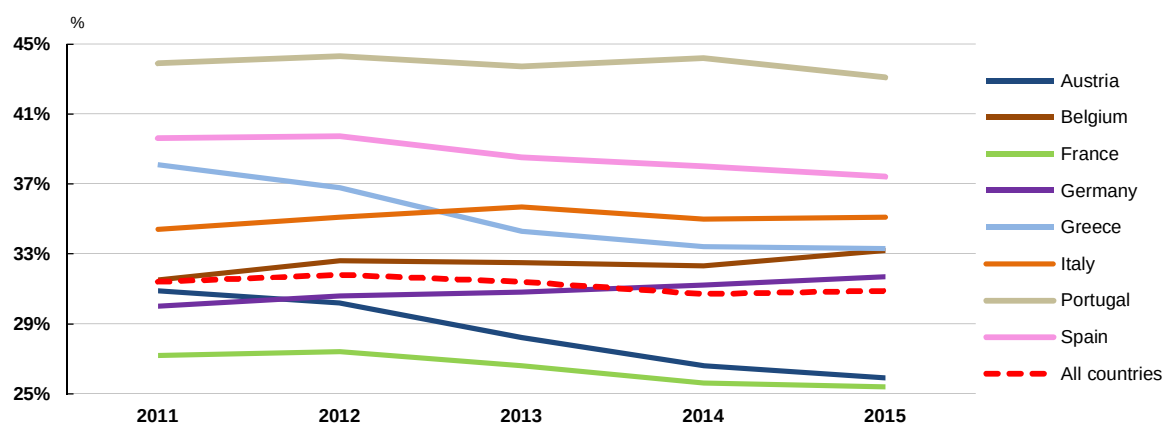
In 2015, the aggregate financial debt share remained stable. Here too, the development is driven by the large entities. As for the median, the financial debt share remained fairly stable in all size classes. A sectoral split offers additional insight. In industry, the largest sector, the aggregate financial debt share slightly rose, while in median terms a decline was visible. Furthermore, a rise of the weighted ratio in the energy sector compensated almost entirely for a fall in services and construction sectors. The decline in the aggregate financial debt share of the construction and services sectors was influenced by the largest groups, since the median ratios increased in 2015.

Evolution of debt ratio between 2011 and 2015 is country- and sector-dependent

Based on a fixed sample of 713 groups, the share of financial debt in the balance sheet total remained stable at around 31% during the period 2011-2015. However, chart 15 reveals that the level and trends at country level are somewhat divergent. Austrian groups reduced the (already low) weight of

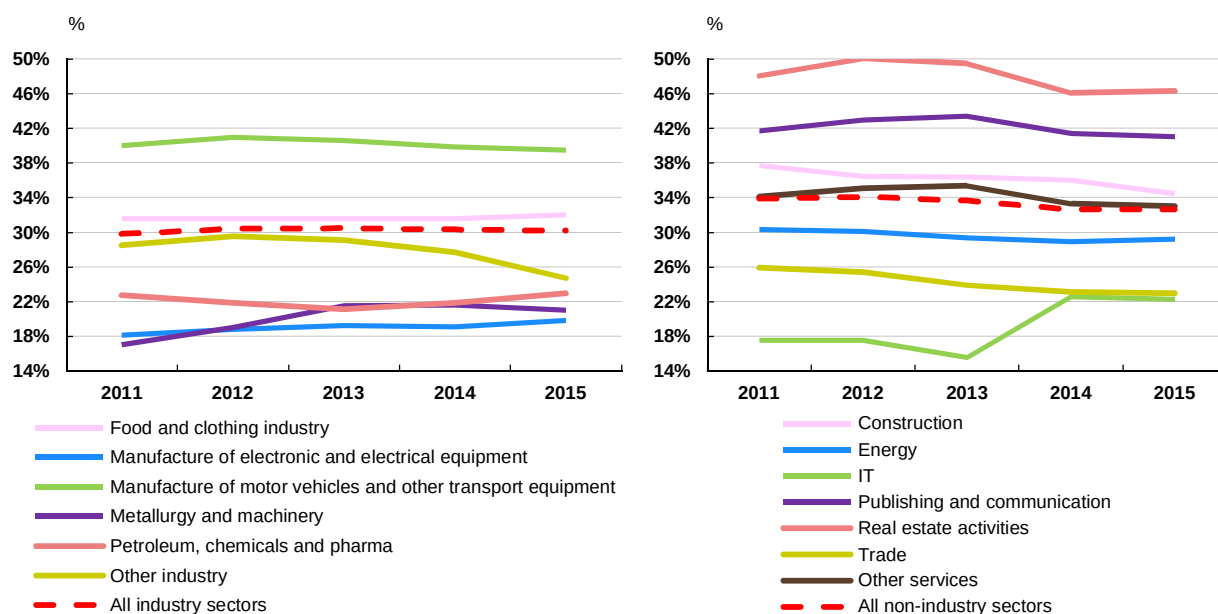
financial debt the most: the ratio fell from 30.9% in 2011 to 25.9% in 2015. Spanish, French and Greek groups scaled down their financial debt ratio as well over the last five years. The weighted average financial debt ratio of German and Belgian groups, on the other hand, increased slightly. Portuguese and Spanish groups remain the most indebted in the sample, while French and Austrian groups are the least dependent on financial debt.

CHART 15 WEIGHTED AVERAGE DEBT RATIO PER COUNTRY



Source: ERICA 2015 fixed sample

CHART 16 WEIGHTED AVERAGE DEBT RATIO PER BRANCH OF ACTIVITY



Source: ERICA 2015 fixed sample

Chart 16⁶ points up that, at branch level too, the size of the financial debt ratio and the trend over time are not homogeneous. With the lowest weighted average equity ratio for manufacture of motor vehicles and other transport equipment, it is the industry sector that has the highest weighted average

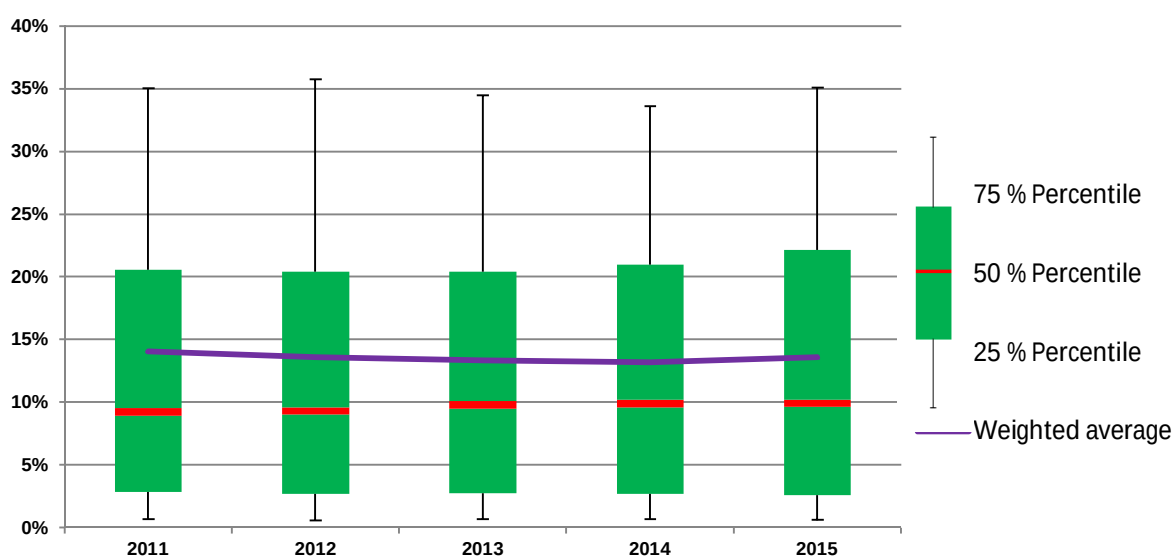
⁶ Similar graphs have been plotted on the basis of the median debt ratios. These charts are included in Annex B.2.

debt ratio. This is attributable to the large groups, as median values do not exceed 27%. The charts, especially the ones based on median values, reveal that industry sectors are on average less indebted than non-industry sectors. Weighted average financial indebtedness is highest in the real estate sector, also in median terms. As this sector has a high weighted average equity ratio as well, this implies that real estate groups do not have many other liabilities on their balance sheet. Despite the upward trend over the period under review, weighted average financial indebtedness remains low among manufacturers of electronic and electrical equipment, metallurgy and machinery groups and IT groups.

IV.4 GOODWILL: AN OVERVIEW OF 2011 – 2015 DEVELOPMENT

According to Appendix A of IFRS3, goodwill is defined as an asset representing the future economic benefits arising from other assets acquired in a business combination that are not identified individually and recognised separately. In other words, goodwill is created when another entity (or part of that entity) is acquired at a price exceeding the fair value of all identifiable net assets. The goodwill of groups increases through mergers and acquisitions and falls as a result of disinvestment as well as impairments. The following chart shows the weighted average and the distribution parameters from 2011 until 2015. A fixed sample for all countries is used.

CHART 17 GOODWILL SHARE – GOODWILL / TOTAL ASSETS 2011-2015



Source: ERICA 2015 fixed sample

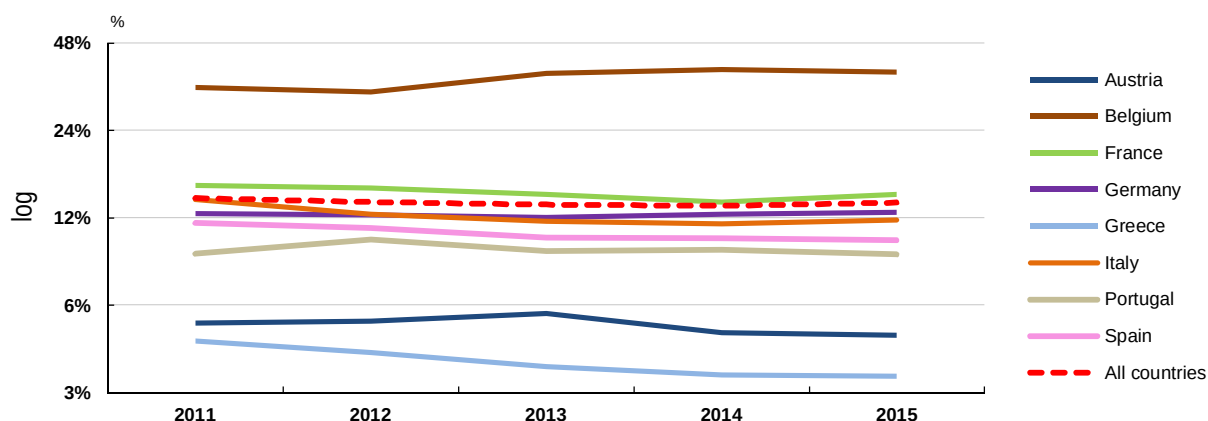
The location of the weighted average as opposed to the median shows that bigger groups on average have a higher share than smaller groups.

Despite the discussions⁷ in some countries about the risk due to mounting stock of goodwill and the fact that impairments are not commonly recognised, the weighted average of the goodwill share and

⁷ There has been some discussion in the last few years about the low use of the impairment-only approach. Since the abandoned scheduled depreciations, figures for impairments dropped back to less than 2% p.a. of the total stock of goodwill in some countries. For further information, readers are referred to "EFRAG 29/09/2016 - What do we really know about goodwill and impairment? – A quantitative study" and "Duff and Phelps 2015 European Goodwill Impairment Study Dec. 2015" for further information.

also its median have remained almost constant since 2011. This is the result of offsetting developments in the countries over time. This heterogeneity is also reflected in the soaring 75% percentile from 2012 until 2015.

CHART 18 WEIGHTED AVERAGE GOODWILL PER COUNTRY

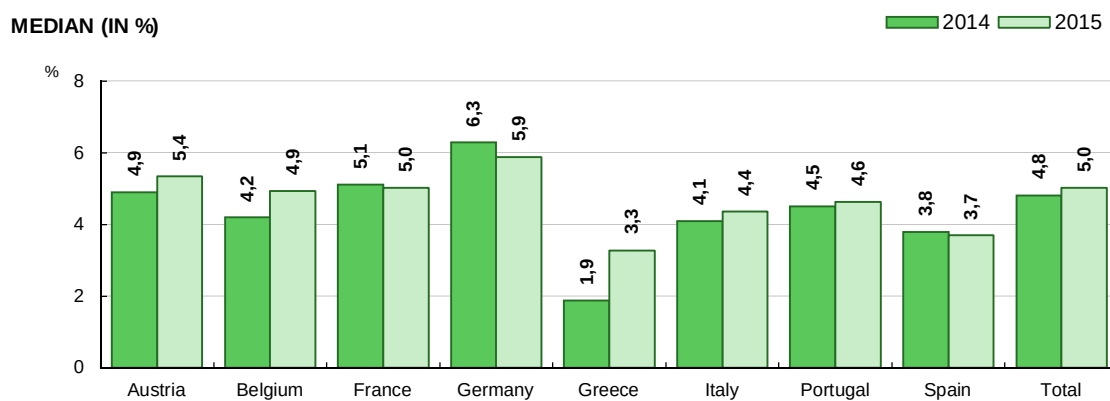


Source: ERICA 2015 fixed sample

Belgium started out in 2011 with an aggregate goodwill share of 34%, which grew to 38% until 2015 – the highest share and growth rate of all countries. The Belgian figures are strongly influenced by the brewer Anheuser-Busch InBev. The rise in its goodwill is explained by the acquisition of Grupo Modelo in 2013 as well as Oriental Brewery and several Chinese breweries in 2014. Greece and Austria had the lowest share of about 4% resp. 5% with a tendency to further decline. Also Spain, France, Italy and Portugal had comparable figures. German groups were quite stable. Due to their relative weight of about 70%, the overall trend was borne by France and Germany.

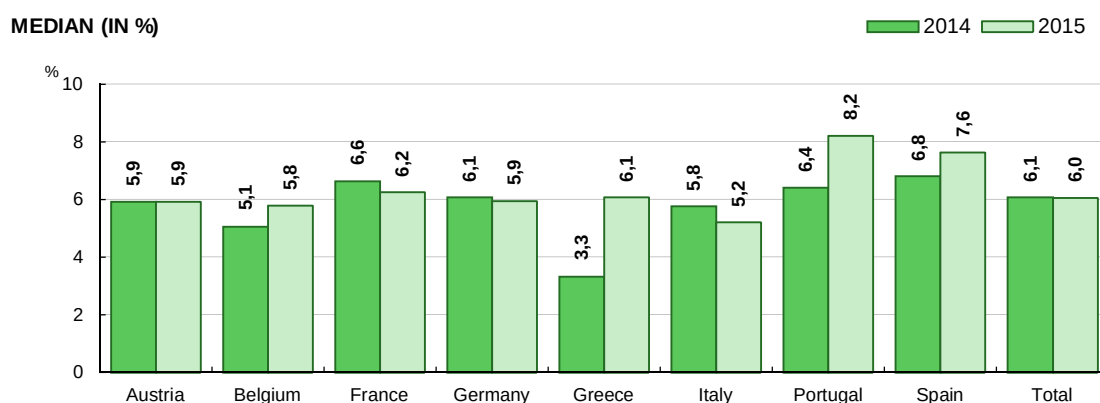
ANNEX A: PROFITABILITY RATIOS IN THE MEDIAN ON COUNTRY LEVEL

1. EBIT RATIO – EBIT / ASSETS TOTAL



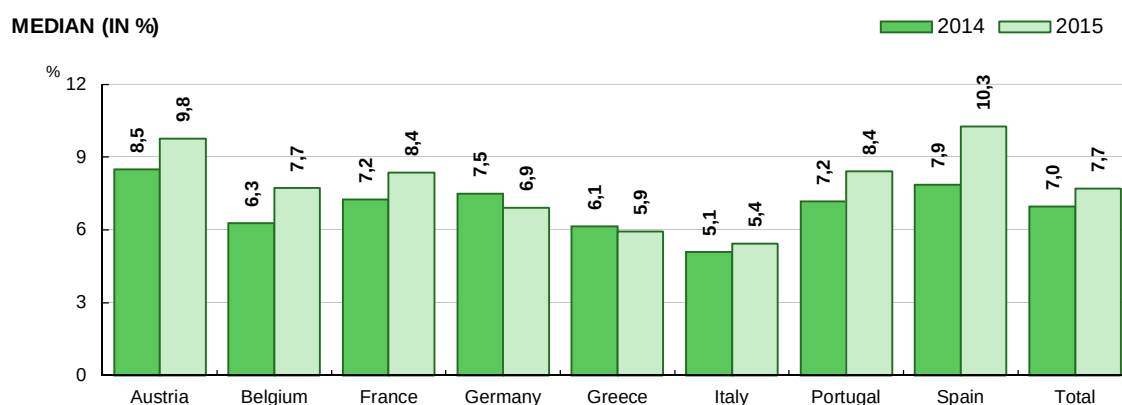
Source: ERICA 2015 static sample.

2. MARGIN – EBIT / REVENUE



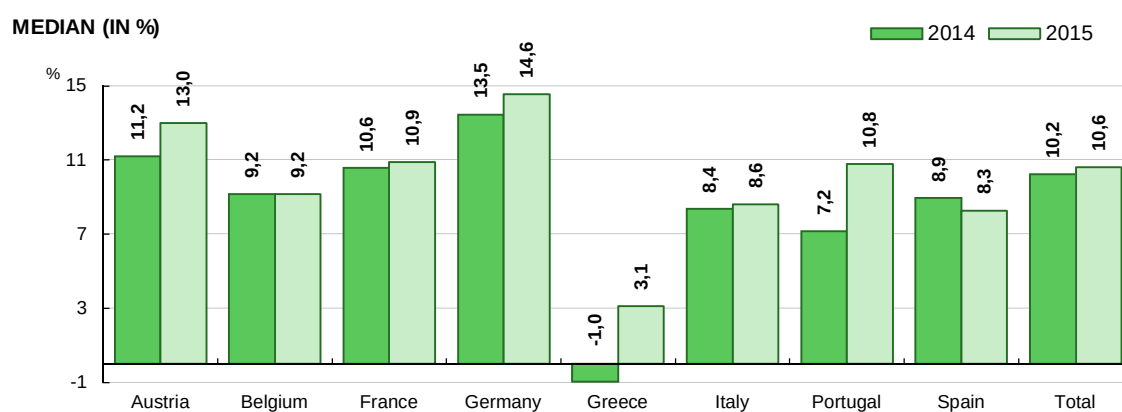
Source: ERICA 2015 static sample.

3. CASH FLOW RATIO – CASH FLOW OPERATING ACTIVITY / REVENUE



Source: ERICA 2015 static sample.

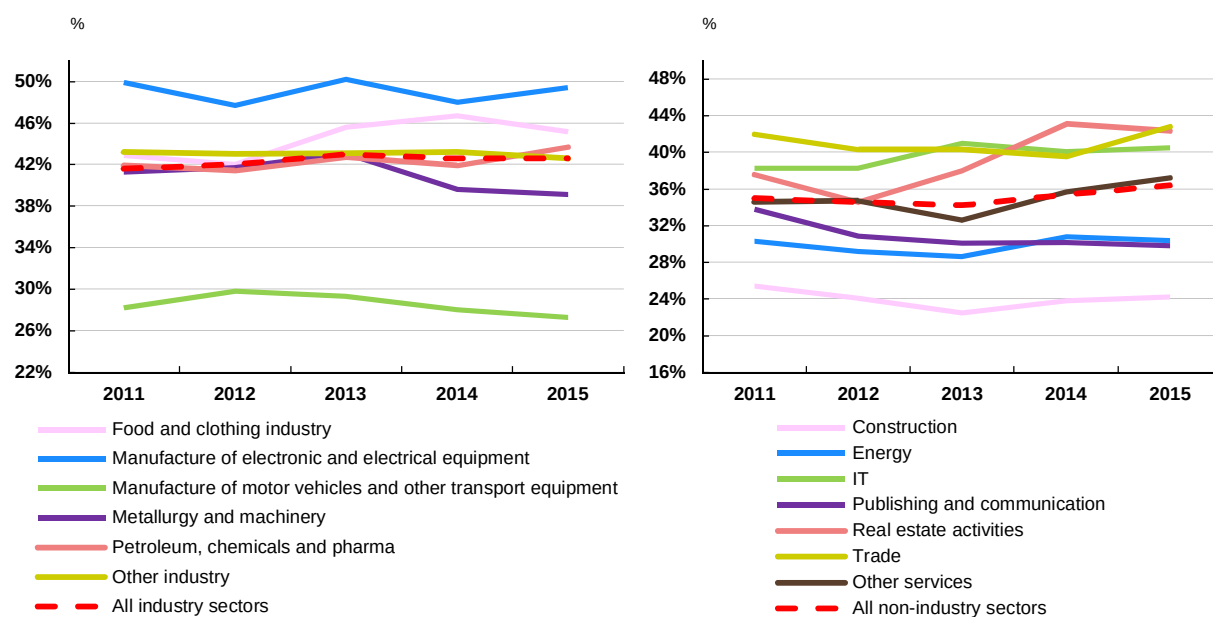
4. RETURN ON EQUITY – PROFIT (LOSS) BEFORE TAX / EQUITY



Source: ERICA 2015 static sample.

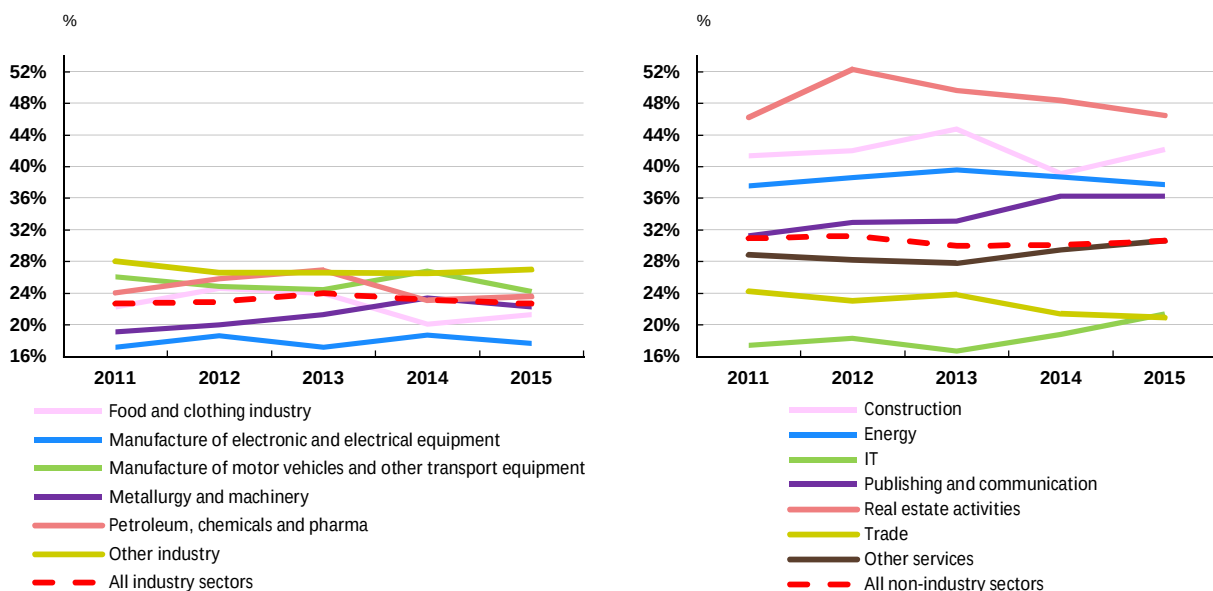
ANNEX B: MEDIAN EQUITY RATIO AND MEDIAN DEBT RATIO PER BRANCH OF ACTIVITY

1. MEDIAN EQUITY RATIO PER BRANCH OF ACTIVITY



Source: ERICA 2015 fixed sample.

2. MEDIAN DEBT RATIO PER BRANCH OF ACTIVITY



Source: ERICA 2015 fixed sample.