2020-2022 A NEW UNCERTAINTY PERIOD

HOW HAVE COMPANIES IN EUROPE AND IN THE US FACED AND RECOVERED FROM RECENT CRISIS?

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EIGHT INTERNATIONAL

EIGHT ADVISORY

KEY HIGHLIGHTS

2020. A GENERALIZED ACTIVITY CONTRACTION

In the year 2020, overall, companies that experienced a decline in revenues had twice the impact on profitability (EBIT). For them, the challenge was to recover from this loss.

We used a financial indicator, called the Reactivity Ratio (RR), which assesses a firms' ability to adjust their costs when experiencing a sales decline. It can be used to compare levels of agility between peers.

There are highly contrasting situational trends depending on the sector:

Reactivity levels are mainly driven by the industry and its underlying ability to adjust costs with activity. For instance, **Energy & Utilities** and **Industry & Chemicals industries typically require** more agile and responsive operations to cope with structurally high volatility levels. Conversely, **Transportation & Logistics** experienced a similar drop in sales but couldn't adapt effectively, leading to a collapse of profitability. **Hospitality & Leisure was the first and by far the most harshly impacted.** They also suffered from their inertia, preventing cost adaptation alongside a severe 50% sales decrease, resulting in the lowest Reactivity Ratio of 60%.

Size matters

In virtually all industries, a correlation was found between the companies' size and their ability to adjust costs in response to declining sales: the highest reactivity levels were observed among firms with more significant sales (above a threshold of €10bn sales).

2021. A CONTRASTED AND MISLEADING RECOVERY

Globally, except Hospitality & Leisure and Aerospace & Defense which operate on longer cycles, companies have gradually recovered.

A return to initial volumes - but only for a limited number of companies

The studied companies have generally returned to growth and are close to reaching their initial activity levels, reaching 97% of the panel's total 2019 revenue. Nevertheless, only 50% have recovered their 2019 sales in 2021. Raw material price increases in H2 have stymied the recovery.

A less profitable growth compared to previous years

Likewise, the global EBIT ratio was recovered and improved by 1 ppt in 2021 compared to the 2019 level – but only 40% of companies reached their initial 2019 EBIT rate.

Some industries experience longer-term decline

The most affected industries are still showing significant underactivity in 2021 with their EBIT deteriorating over the period. **Hospitality & Leisure** achieved half of 2019 activity with only 25% of companies recovering, and global EBIT ratio is 22 ppt lower than pre-covid. No companies recovered within **Aerospace & Defense**, attaining 79% of 2019 activity and a 5 ppt degradation in EBIT ratio.

2022. NEW CHALLENGES JEOPARDIZING THE RECOVERY

CONTENTS

INTRO & APPROACH

Since 2020, companies have experienced numerous crises; to such an extant that we can consider the entire economic environment to have been overturned. The year 2022 has already brought its share of shocks and traumatic events. We wanted to study the ways in which these successive crises have affected the main companies in Europe and the United States.

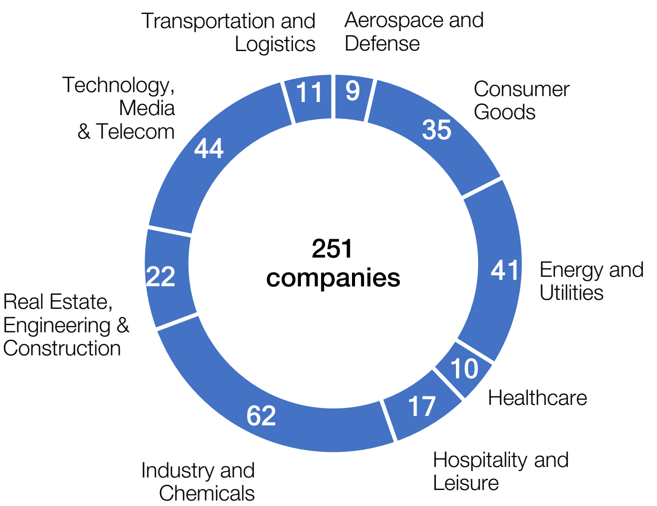
This study aims to analyse the ways major European and American companies* impacted by the crisis coped with reduced activity. Out of the 500 largest companies in Europe and the USA, the 251 companies which experienced negative revenue variation between 2019 and 2020 were the focus of the study.

For this set of companies we analysed two factors:

- How companies reacted to the 2020 Covid crisis, and how their revenue and costs evolved through the reactivity ratio indicator,
- How they recovered from the crisis and are returning to the path of growth and/or profitability.

Exhibit 1. Our approach

A panel of 251 firms listed on 7 stock markets with decreasing activity levels over 2019-2020



Financial indicators to quantify reactivity and recovery from reduced sales levels

2019 **Reactivity Ratio**

- Quantifies the balance of a decline in sales via cost adaptation: compares the evolution of revenue with the evolution of profitability
- Provides a proxy measurement of the business model's agility

2020

2019 **Recovery Ratio**

- Indicates the ability to restore pre-crisis activity and performance levels:
- Expresses 2021 sales & EBIT levels as a percentage of 2019 figures
- Gives an indication of post-crisis recovery

2021

Aggregated data was analysed through several lenses:

1. by **industry**
2. by **sales**
3. by **stock market**

* financial companies have been excluded

CONTRACTION OF GLOBAL ACTIVITY LEVEL

1. The Covid crisis caused general contraction of revenues and a strain on profitability
2. Companies faced different sales decline situations
3. Size matters when it comes to reactivity

YEAR 2020
REACTIVITY TO COVID VALUE EROSION

Faced with a general decline in their businesses, companies have been forced to adapt their costs. This adaptation has been difficult and overall has not been achieved, therefore the **negative impact on EBIT is twice as significant as the impact on revenues**.

All industries have been impacted - albeit to greatly varying degrees.

Exhibit 2. FY19 – FY20 revenue drop & EBIT drop on the study panel, per industry

	Revenue FY19	Revenue Var. FY19-20	Revenue drop (%)	EBIT FY19	EBIT Var. FY19-20	EBIT drop (%)
	6 441	(1 215)	**(19%)**	697	(278)	**(41%)**
Hospitality & Leisure	121	(74)	(61%)	16	(30)	(190%)
Energy & Utilities	2 147	(671)	(31%)	153	(107)	(70%)
Transp. & Logistics	113	(30)	(26%)	20	(14)	(72%)
Aerospace & Defense	205	(46)	(22%)	18	(20)	(109%)
Industry & Chemicals	1 923	(246)	(13%)	169	(50)	(29%)
Consumer Goods	719	(67)	(9%)	126	(21)	(17%)
R.E., Engineering & construction	273	(30)	(11%)	35	(9)	(25%)
TMT	829	(45)	(5%)	142	(26)	(18%)
Healthcare	112	(6)	(6%)	17	(1)	(3%)

Median drop: (10)%

Median drop: (26)%

Med: median calculated over the relevant companies in the sample (251 companies)

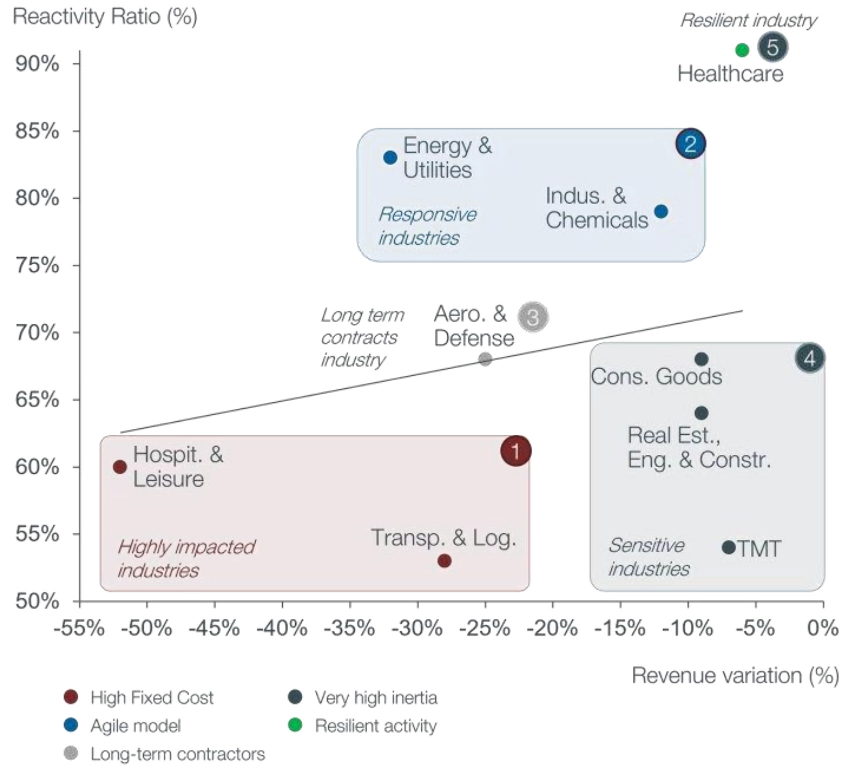
YEAR 2020
REACTIVITY TO COVID VALUE EROSION

We used the reactivity ratio (RR) as an indicator, which quantifies the balance of a decline in sales via cost adaptation. This indicator provides a helpful comparison in such situations.

In 2020, the studied **industries have faced different revenue decline situations**, their structural costs are reflected in their ability to adjust their costs.

1. Faced with a **significant contraction** in their activity, 'Hospitality & Leisure' and 'Transportation & Logistics' - whose **market models** are based on **fixed costs -** have been **greatly affected** in their result.
2. In contrast, other industries, such as 'Energy & Utilities' and 'Industry & Chemicals', which generate **higher margins** and are more **accustomed** to managing **variations in activity,** have been more successful in adjusting their cost structures accordingly.
3. 'Aerospace & Defense', which relies on **long-term contracts**, is **not accustomed to absorbing** such a **sudden decrease** in activity (cancellation of orders by airlines).
4. Other industries were **less affected** by the decline in activity, namely 'Real Estate, Engineering & Construction', 'Consumer Goods' and "TMT", but nonetheless showed certain **inertia to adapt their expenses**.
5. Finally, the Healthcare industry was the **least affected both** in terms of the **decrease in activity** and profitability **due to topline resilience.**

Exhibit 3. FY19 to FY20 reactivity ratio and revenue decrease per industry



Sources: Thomson Reuters & Eight Advisory Analysis

YEAR 2020
REACTIVITY TO COVID VALUE EROSION

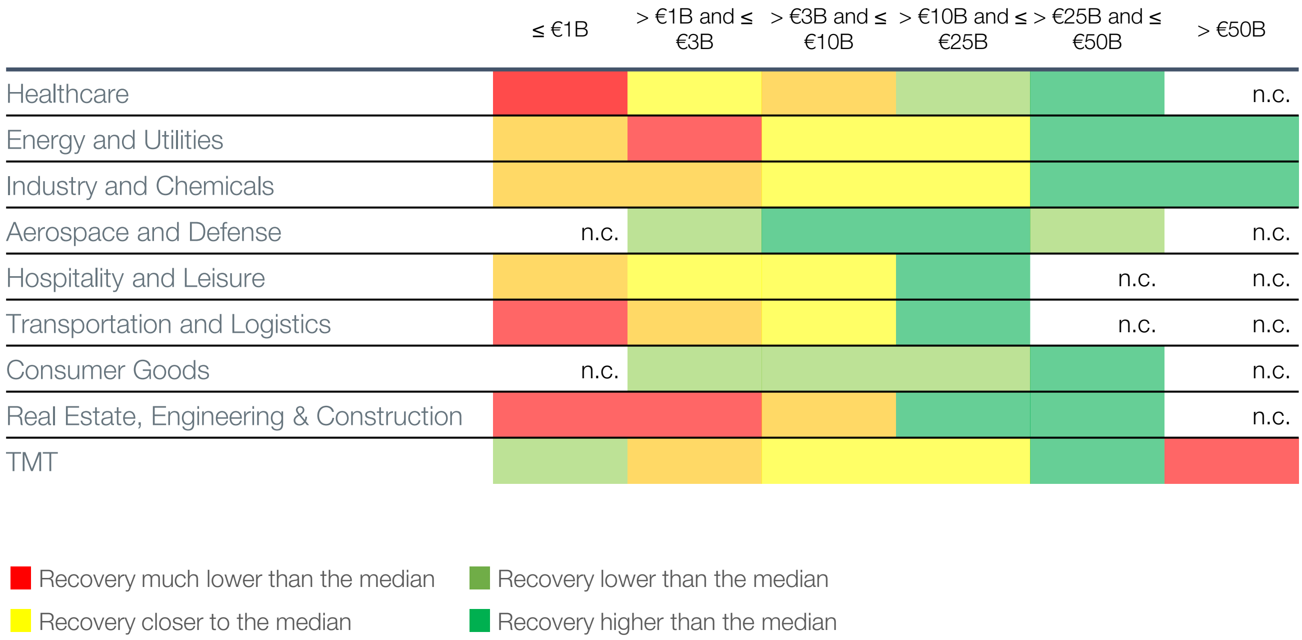
We found a **slightly positive correlation** between **the size of the company** and its **ability to absorb a drop in activity.**

In almost all industries, the best cost adaptation is achieved by the biggest companies, i.e. those with the highest turnover. And vice versa, the least effective cost adaptation is found in companies with the lowest sales.

€10bn in sales appears to be the threshold above which a company has the resources to recover more easily. This may explain why companies operating in 'Hospitality & Leisure' and 'Transportation & Logistics' overall responded poorly: they seldom reach this level of turnover.

The one exception to the rule is TMT, where the smallest companies have the best reactivity ratios and the biggest have the worst in the industry.

Exhibit 4. Worst and best performers by size and industry



Sources: Thomson Reuters & Eight Advisory Analysis

HETEROGENEOUS ACTIVITY & PERFORMANCE RECOVERY

1. Only half of the firms have recovered, despite global value almost fully recovering
2. Some industries demonstrated a growth in profits over 2019-2021, while others are likely to endure a long-term decline
3. Smaller firms seem to be best suited for recovering their activity level

YEAR 2021
HETEROGENEOUS ACTIVITY & PERFORMANCE RECOVERY

2021 revenues are close to rebounding to 2019 levels, with almost **all industries** returning to pre-crisis levels of activity. **Three** of the industries that were **most weakened** by the crisis are **still halfway through recovery**: Hospitality & Leisure, Transportation & Logistics, and Aerospace & Defense.

The situation is **less reassuring** when looking **firm by firm - only half** of them managed to return to **pre-crisis revenue levels** with **considerable heterogeneity according to the industry.**

Exhibit 5. FY19 – FY21 revenue recovery on the study panel, per industry*

	FY21 €m	Var. FY19-21	Revenue recovery (%)	# Company fully recovered (%)
	5 402	**(116)**	**97%**	**50%**
Hospitality & Leisure	56	(61)	48%	25%
Transportation & Logistics	55	(17)	77%	29%
Aerospace & Defense	162	(43)	79%	0%
Real Estate, Engineering & Construction	250	(7)	97%	39%
TMT	718	(18)	98%	46%
Industry and Chemicals	1 485	(29)	98%	57%
Energy and Utilities	2 064	(27)	99%	59%
Consumer Goods	625	4	102%	52%
Healthcare	98	3	103%	100%

Median drop: (10)%

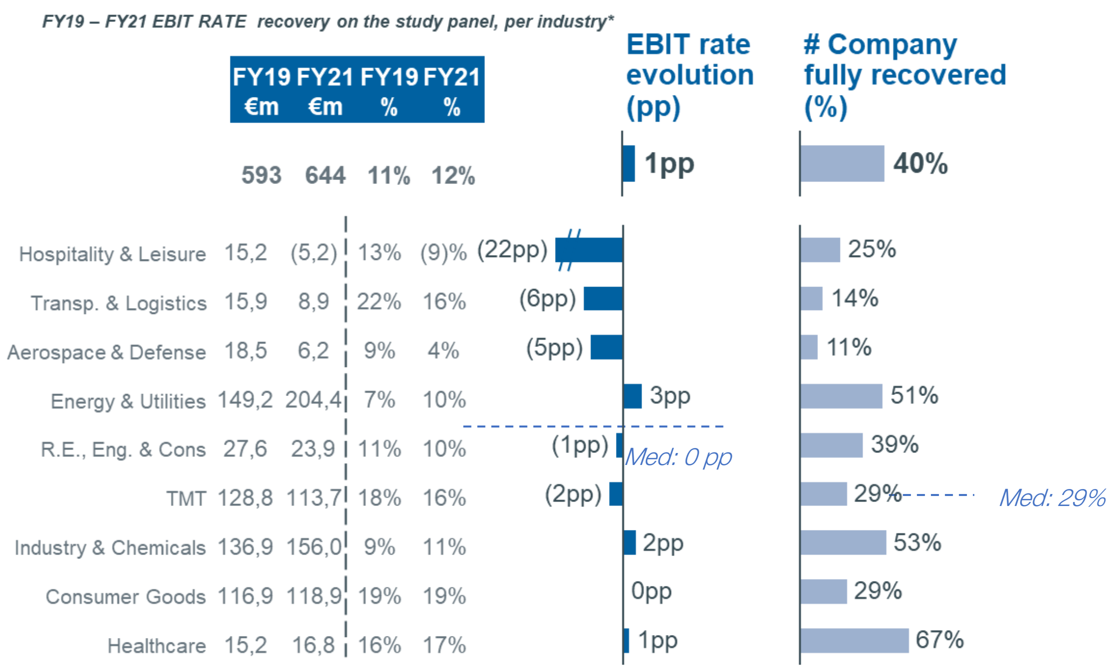
Median drop: (26)%

* For the 205 companies in the panel that have published their financial information

EBIT ratio, which **deteriorated significantly in 2020** has managed to rally in 2021 up **to 1 point above the 2019 level.**

However, fewer than **half of the companies** managed to even **reach** their **2019 profitability**.

Exhibit 6. FY19 – FY21 EBIT rate recovery on the study panel, per industry*



* For the 205 companies in the panel that have published their financial information

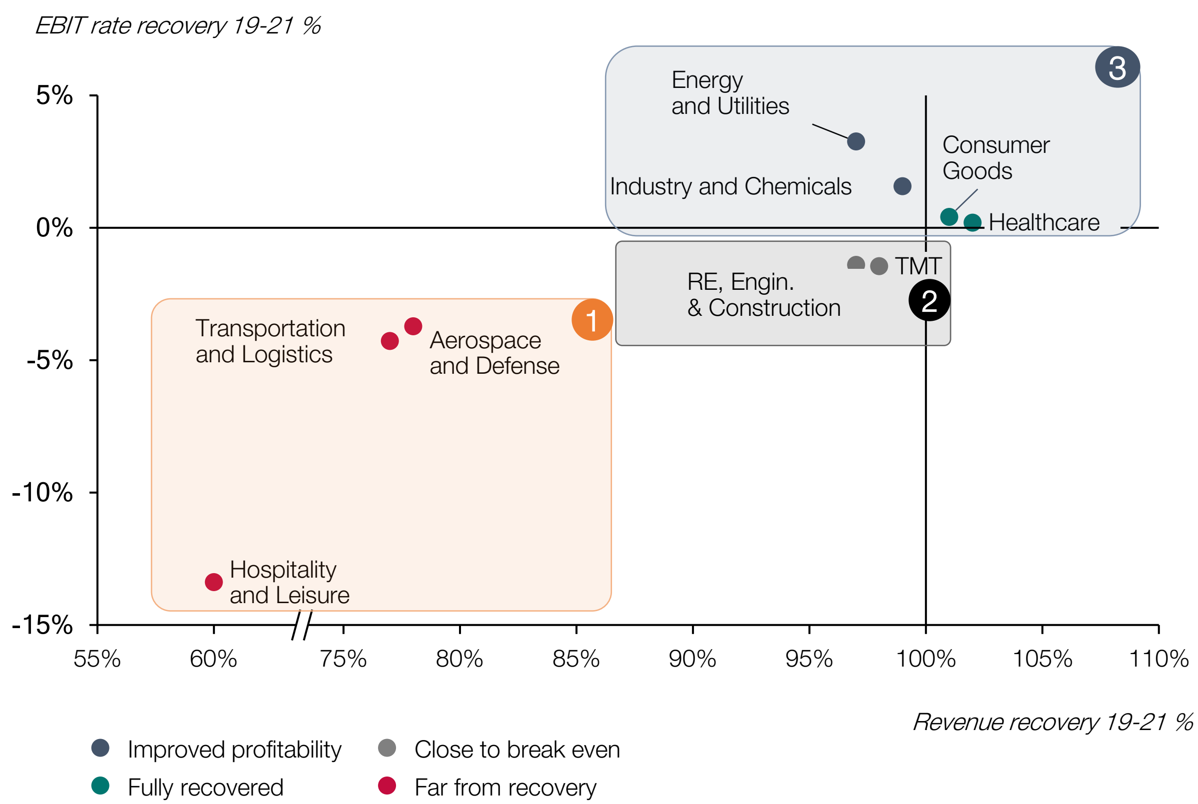
YEAR 2021
HETEROGENEOUS ACTIVITY & PERFORMANCE RECOVERY

We analysed the **recovery ratio of each company**, which expresses 2021 Sales & EBIT levels as a **percentage of 2019 figures**: it indicates the **ability** of a given firm or set of firms to **restore their pre-crisis activity & performance levels.**

In 2021, the situation **contrasted from** one **industry** to another, with a **few industries managing to improve their situation** and **three** that **remain deeply impacted**:

1. The **three** industries **most weakened** by the crisis, 'Hospitality & Leisure', 'Aerospace & Defense' and 'Transport & Logistics', are **still** showing **significant under activity** in 2021 and therefore, their **EBIT rates remain suppressed due to the lack of recovery of their activity**.
2. Others, such as Real Estate and TMT industries, have found their **way back to economic growth.** This recovery has taken place with **varying attainment of pre-crisis margin levels** (EBIT).
3. Among the **few over-performers**, 'Energy & Utilities' and 'Industry & Chemicals' have managed to exceed their 2019 activity levels, their margins are nevertheless not yet at the same level. **Two industries** managed to **exceed both their activity level and improve their EBIT rate**, namely 'Healthcare' and 'Consumer Goods'. Activity recovery can be partly explained by the rise in raw material prices.

Exhibit 7. FY21 to FY19 Revenue recovery (%) and EBIT Rate recovery (%)



Sources: Thomson Reuters & Eight Advisory Analysis

METHODOLOGY

STUDY SAMPLING

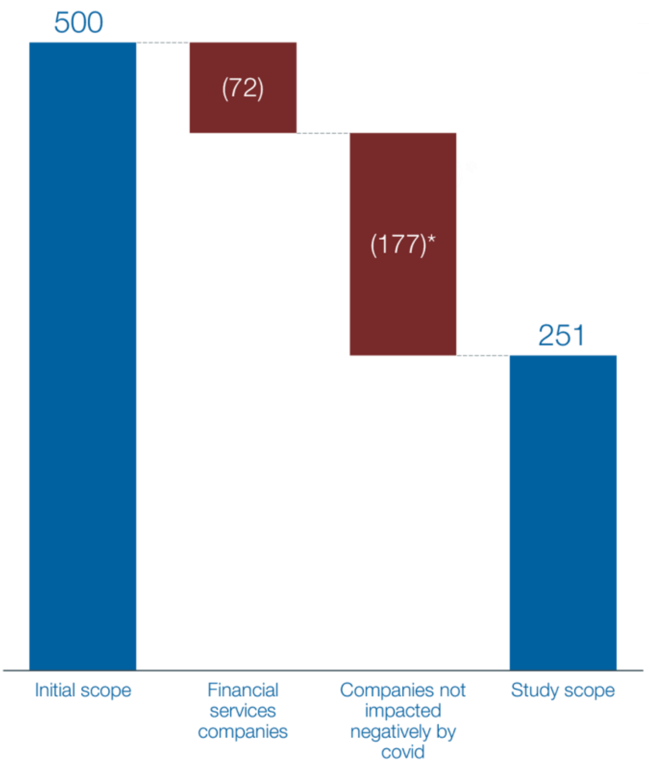
Out of the panel of 500 major worldwide companies, the study retains only companies that had a drop in sales between FY19 - FY20 and excludes financial services which have their own market logic.

- The "Reactivity ratio" study aims to analyse the way major European and American companies faced Covid 19 crisis that occurred in March 2020.
- The study has been performed on the panel of the 500 companies belonging to 7 major stock exchanges in Europe (SBF120, HDAX100, FTSE100, BEL20, FTSEMIB, IBEX30) and the USA (S&P100)
- The study discards:

  → Financial Services companies, as they have a specific business model and accountability requirements
  → Companies which experienced a revenue increase from 2019 to 2020 (169 companies excluded based on this filter).
  → Including only companies with comparable reactivity ratios (specifically ratios above 1,000% and -700% are excluded - 8 companies excluded).

As a result, the number of companies studied amounts to 251 covering 9 industries**

Exhibit 7. Number of companies in stock indexes and scope of the study (unit)



Sources: Financial data comes from Thomson database
* 177 includes 6 companies that have extreme reactivity ratios
**Thomson industry tags have been used as a basis; industry classification has been simplified by grouping industries.

REACTIVITY RATIO, 2019-2020: FORMULA & RESULTS DISTRIBUTION

The Reactivity Ratio is a financial indicator that allows for exploring individual and aggregated cost adaptation levels over a given period. This indicator quantifies the absorption of a decline in sales through virtually simultaneous changes in the cost structure.

The Reactivity Ratio can thus be used to compare the agility of a given business model compared to peers exposed to the same conditions who also experienced a drop in sales over the period.

For example, to compute the reactivity ratio of year 2020: FY20 reactivity ratio $= 1 - \left(\frac{\Delta\, \mathrm{EBIT}_{\mathrm{FY20-FY19}}}{\Delta\, \mathrm{SALES}_{\mathrm{FY20-FY19}}}\right)$

Example: in FY20, a 40% reactivity ratio means that between FY19 and FY20, 40% of the revenue decline has been absorbed by cost structure. The remaining 60% negatively impacted FY20 EBIT.

Exhibit 8. Reactivity ratio (%) distribution by situation and no. of companies

Revenue decrease and cost structure adaptation and its impacts on EBIT

Mathematics and level of reactivity ratio (in%)	Financial signification	Economic situation
$\Delta\, Sales < 0 < \Delta\, EBIT$ ➔ RR > 100%	Despite a drop in sales, EBIT increases	**Profitability improvement : 41 companies** ▪ Structure costs adaptation goes beyond the decrease in activity ▪ Despite a decrease in revenues, the EBIT has increased; ie Companies manage to reduce costs to a greater extent than the revenue drop.
$\Delta\, Sales < \Delta\, EBIT < 0$ ➔ 0% < RR < 100%	EBIT decreases less significantly than sales **Part** of the drop in sales is absorbed by cost structure	**Profitability deterioration: 180 companies** ▪ Cost adaptation was insufficient to completely counteract the effects of sales drop ▪ Facing revenue decrease, the companies managed to reduce their costs, it has remained insufficient.
$\Delta\, EBIT < \Delta\, Sales < 0$ **EBIT decrease bigger** than Sales decrease ➔-100% < RR < 0%	Cost structure (EBIT) affected **beyond** sales decrease	**Intense profitability deterioration or necessity to improve expenditures: 21 companies** ▪ Significant deterioration of the decline in revenues on the cost structure ▪ Higher drop in EBIT than a drop in revenues. This shows their i*nability to adjust expenditures or even increase expenditures due to the crisis*
$\Delta\, EBIT < 2 \times \Delta\, Sales < 0$ **EBIT decrease twice bigger** than Sales decrease ➔ RR < -100%	Cost structure (EBIT) affected **way beyond** sales decrease	**Very high profitability deterioration or necessity to improve expenditures: 9 companies** ▪ Way higher drop in EBIT than a drop in revenues (x2). This shows their absolute i*nability to adjust expenditures or even increase expenditures due to the crisis*

RECOVERY RATIO, 2019-2021

The Recovery ratio, on the other hand, is an indicator which expresses **2021** Sales & EBIT levels **as a percentage of 2019 figures.** It gives a sense of the ability of a given firm or set of firms to restore their pre-crisis activity & performance levels.

Similarly, the Recovery ratio can be used for comparison purposes within an industry; to assess the relative ability of a given company to restore its initial Sales & EBIT levels.

For example, for calculating recovery ratios for the year 2021 concerning initial 2019 figures:

$$\text{Sales FY21-19 recovery ratio} = \left(\frac{\text{Sales}_{\text{FY21}}}{\text{Sales}_{\text{FY19}}}\right)$$

$$\text{EBIT FY21-19 recovery ratio} = \left(\frac{\text{EBIT}_{\text{FY21}}}{\text{EBIT}_{\text{FY19}}}\right)$$

Values below 100% imply a partial recovery of activity or performance levels, whilst values over 100% indicate growth or increased bottom-line performance in 2021 vis-à-vis pre-crisis 2019 figures.

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