Between the two crises – Corporate Balance Sheets 2008-2020

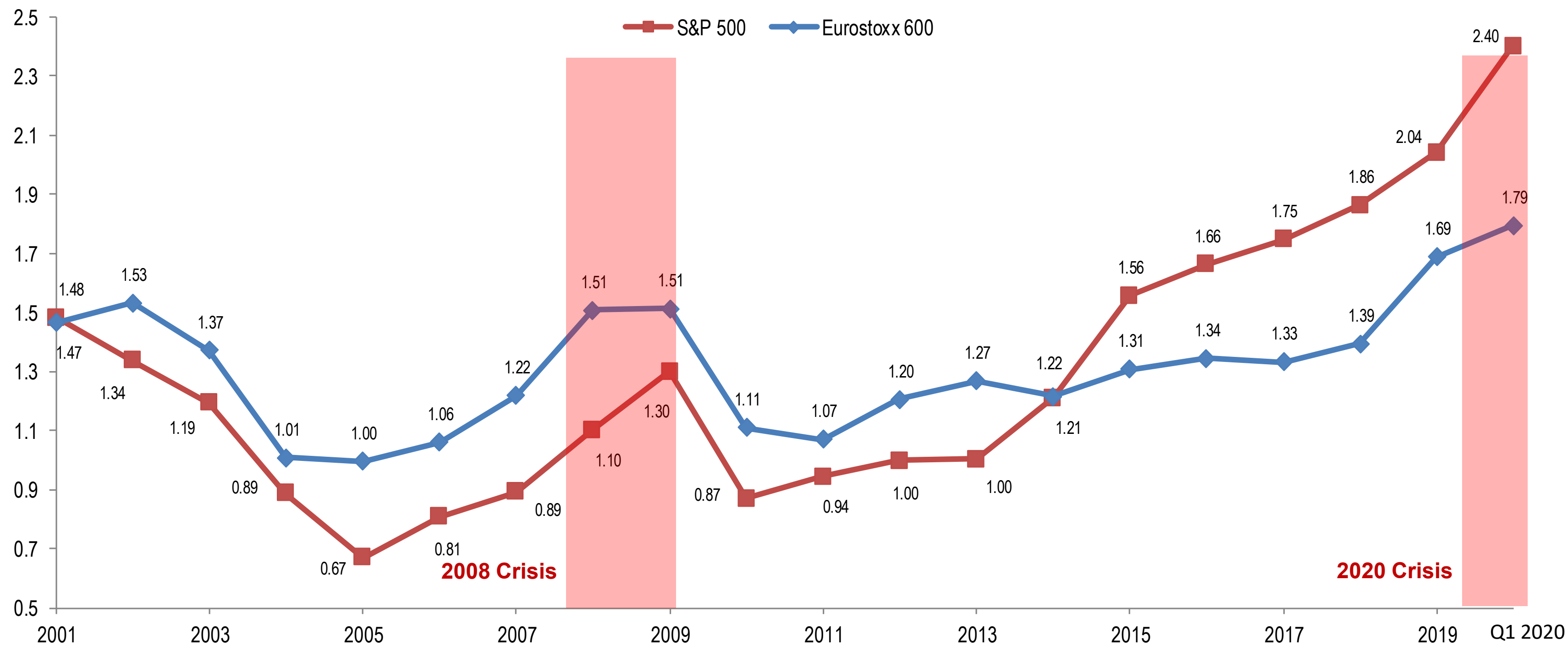
Stanley Myint and Fabrice Famery

- We analyse the changes in corporate balance sheets between the Financial crisis of 2008 and Covid crisis of 2020
- In the immediate aftermath of the Financial crisis, companies have created more prudent balance sheets:
  1. More liquidity (cash, liquid investments, undrawn credit lines) until 2017
  2. Leverage improvement between 2009 and 2014
- By the time of the Covid crisis in 2020, liquidity dropped back to the levels of 2008 and leverage became much higher
- On the positive note, EBITDA margins have improved significantly since 2008 but returns on invested capital (ROIC) and economic value added (EVA = ROIC - WACC) were still lower in 2020 compared to 2008
- After a drop in 2009, share buybacks started to increase again, but in Europe they never reached the previous levels, while in the US they were higher in 2020 than in 2007. Dividends continued to increase almost without an interruption
- Results of the crisis as of end of Q1 2020:
  - big drop in EBITDA, especially for most impacted sectors: energy, airlines, hotels, oil and gas
  - Many rating downgrades

1. From 2008 to 2020

Net leverage increase since 2011

Leverage (Net Debt/EBITDA)[1,2]

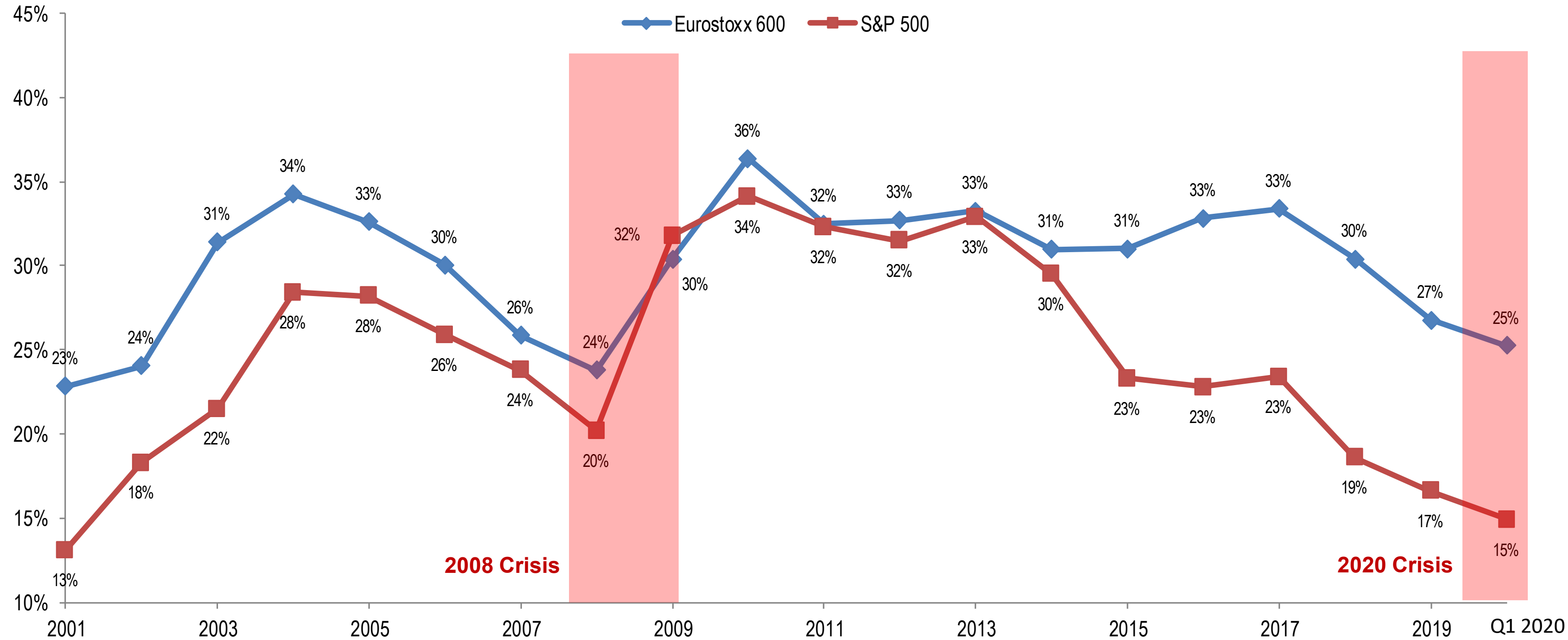


Source: Bloomberg

1. *Median among all the non-financial companies*
2. *Q1 2020 shows the 2020 value computed assuming that the drop of Q1 2020 vs Q1 2019 reflects the drop of FY 2020 vs FY 2019*

Liquidity drop since 2010

Cash reserves (Cash and ST investments / Total Debt)[1,2]

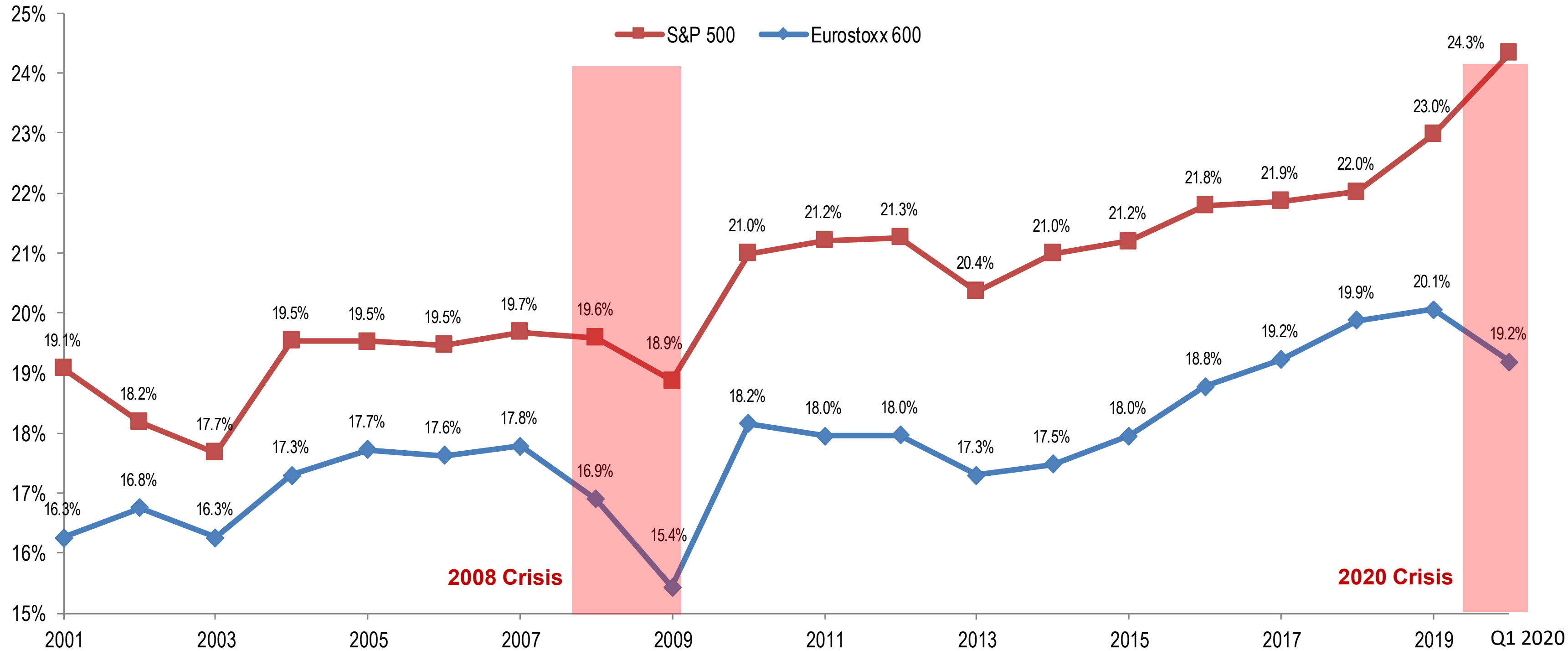


Source: Bloomberg

1. *Median among all the non-financial companies*
2. *Q1 2020 shows the 2020 value computed assuming that the drop of Q1 2020 vs Q1 2019 reflects the drop of FY 2020 vs FY 2019*

Margin improvement but US more profitable

EBITDA margin (EBITDA/Sales)[1,2]

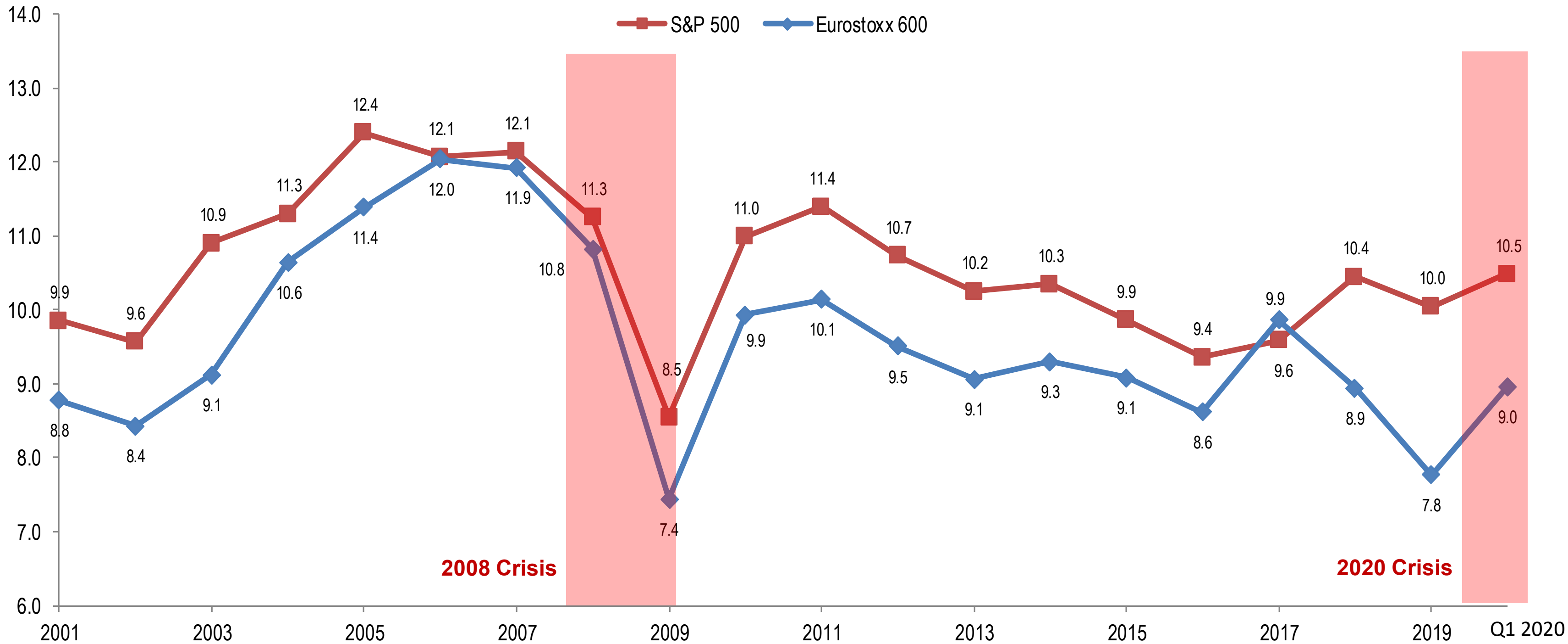


Source: Bloomberg

1. *Median among all the non-financial companies*
2. *Q1 2020 shows the 2020 value computed assuming that the drop of Q1 2020 vs Q1 2019 reflects the drop of FY 2020 vs FY 2019*

Returns on capital lower than before 2008

ROIC (%)[1]

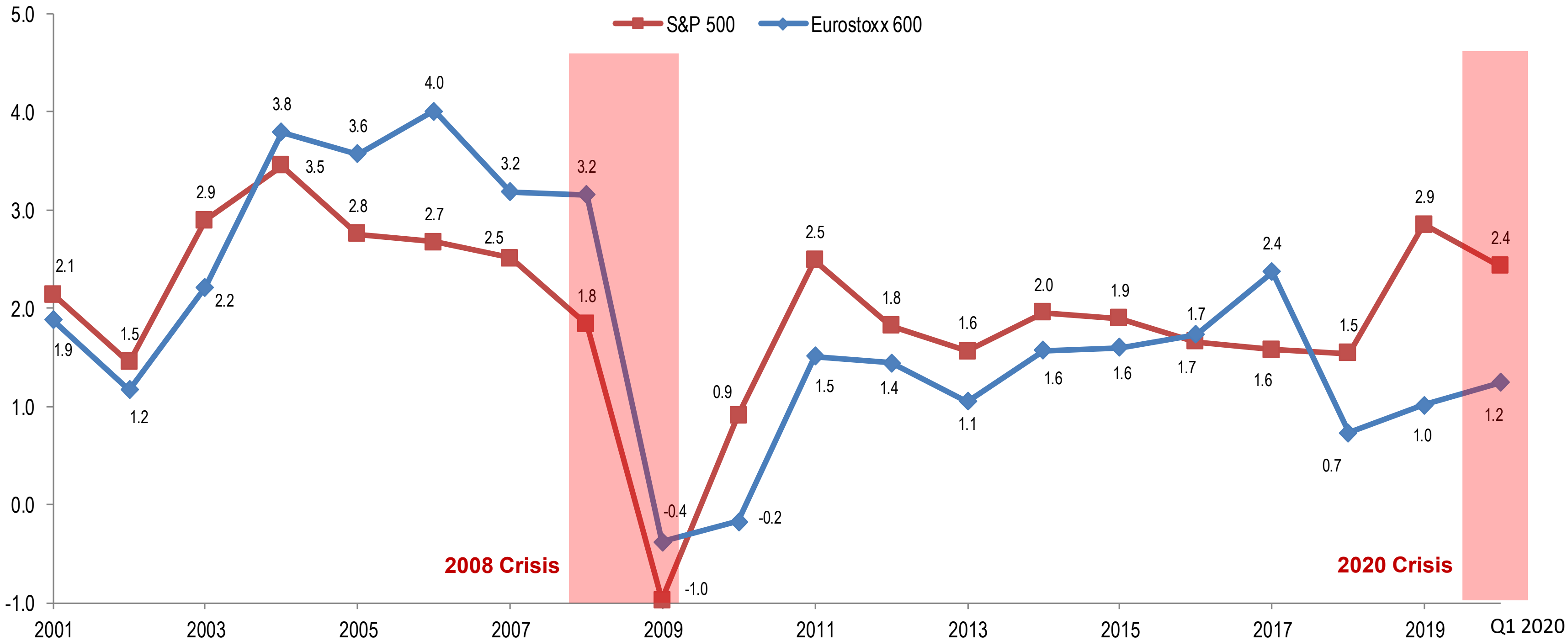


Source: Bloomberg

1. *Median among all the non-financial companies*

Economic Value lower than before 2008

ROIC – WACC (%)[1]

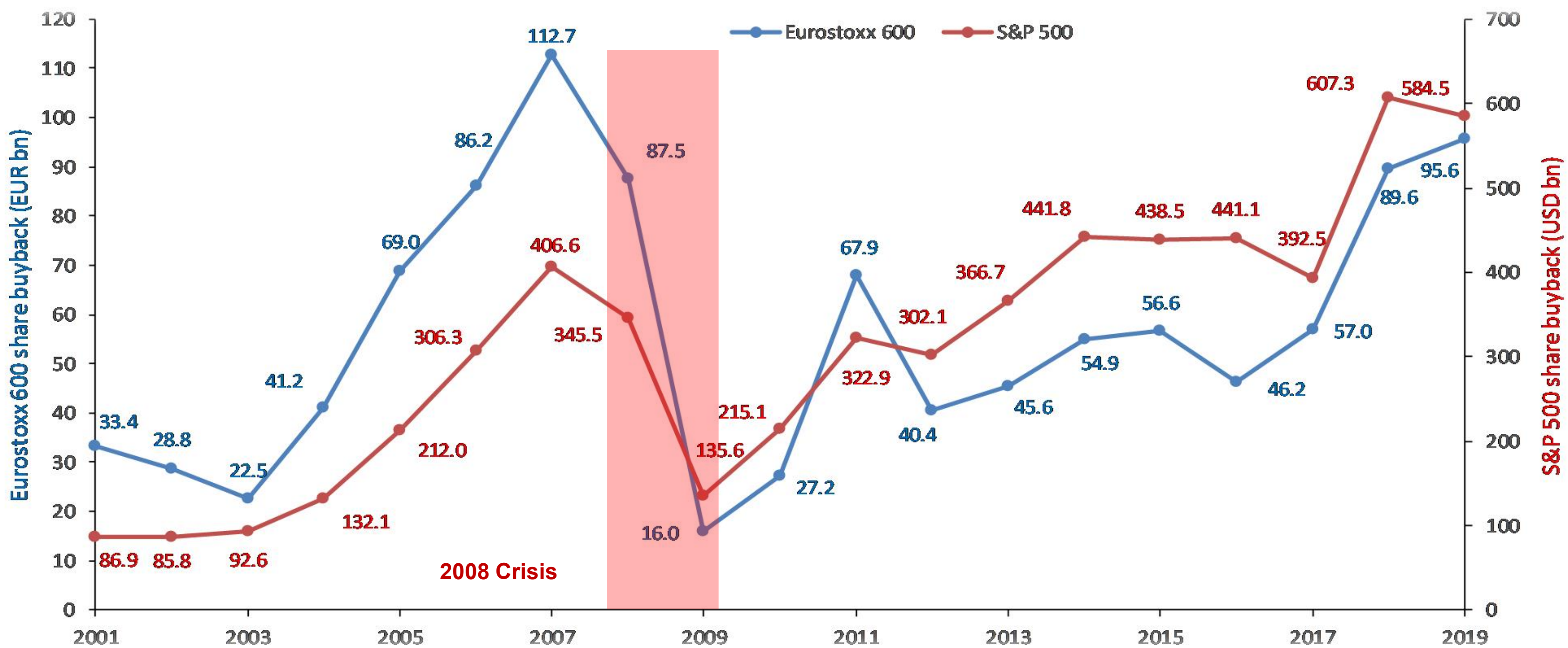


Source: Bloomberg

1. *Median among all the non-financial companies*

Share buybacks increase over time

Total share buy backs[1]

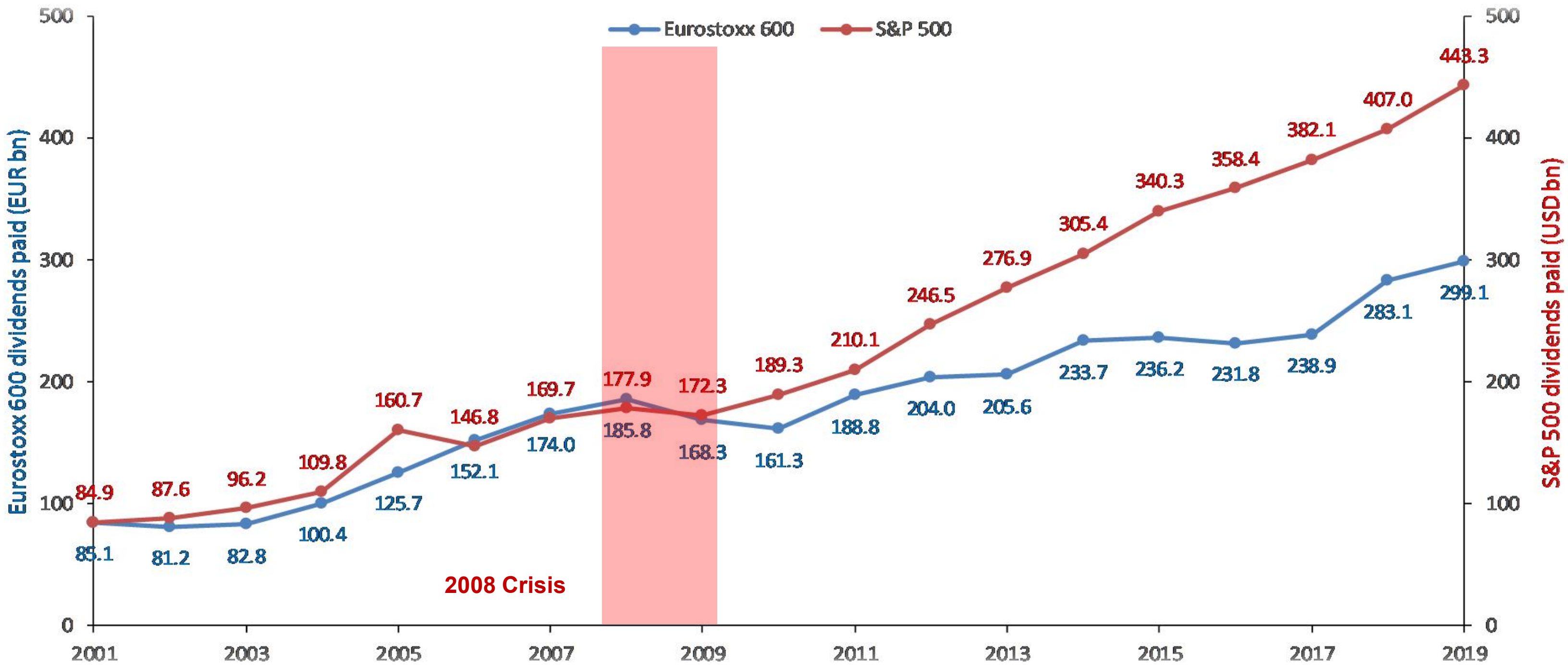


Source: Bloomberg

1. *Sum among all the non-financial companies*

Dividends increase over time

Total dividends paid[1]



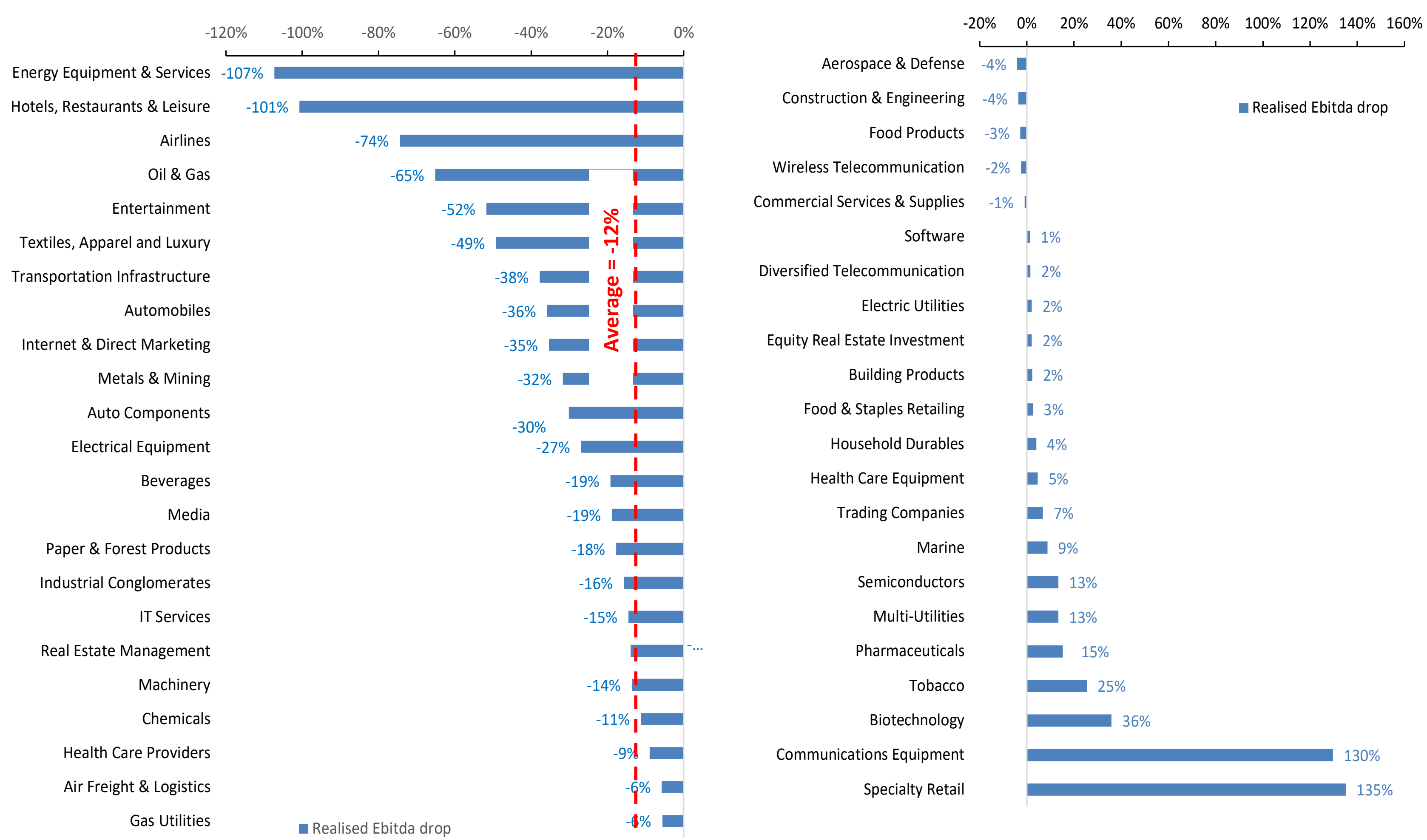
Source: Bloomberg

1. *Sum among all the non-financial companies*

2. 2020

European corporates, average EBITDA drop = -12%

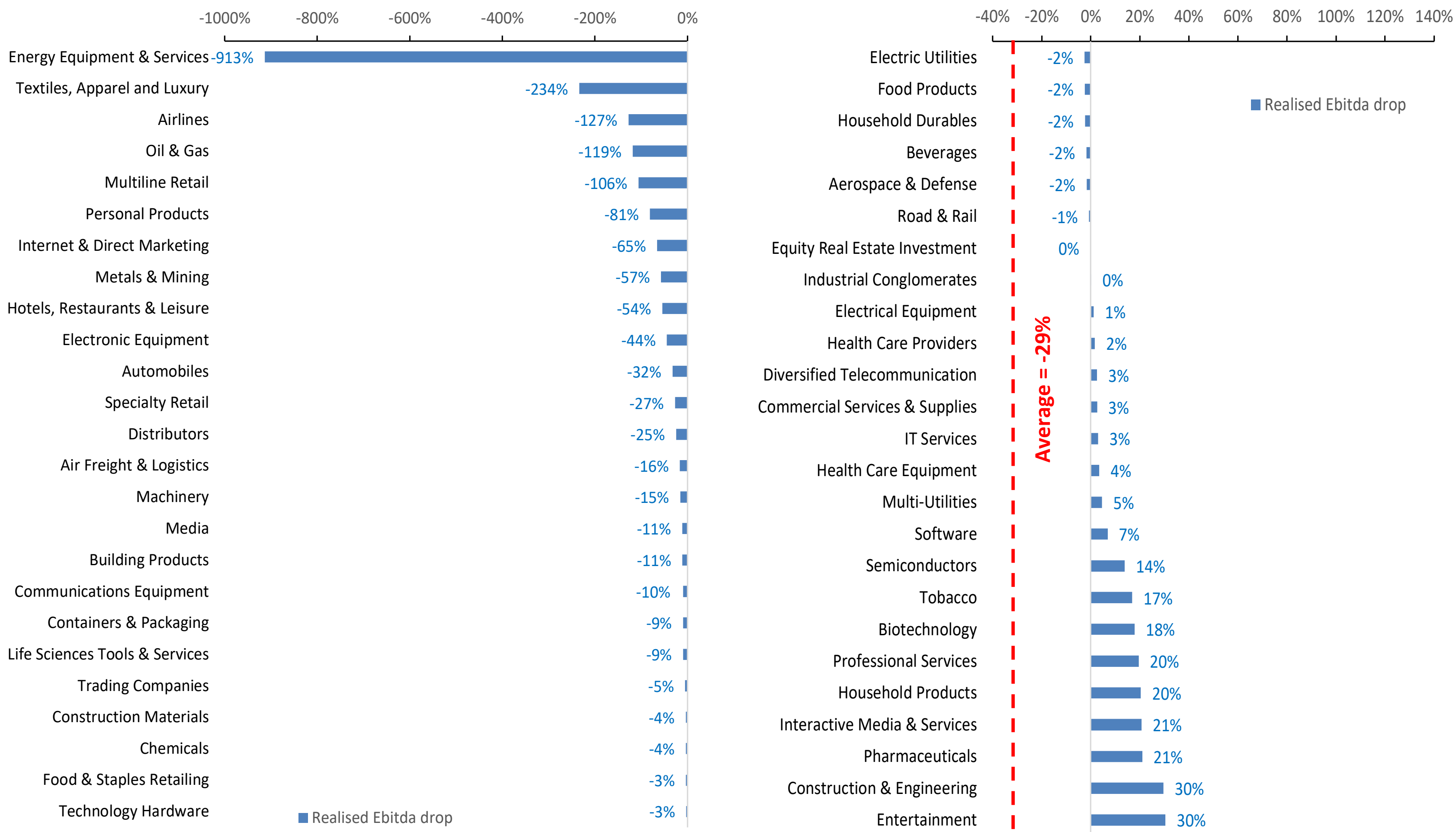
Eurostoxx 600 – EBITDA Q1 2020 vs Q1 2019



Source: Bloomberg

US corporates, average EBITDA drop = -29%

S&P 500 – EBITDA Q1 2020 vs Q1 2019



Source: Bloomberg

European corporates, 12% downgrades

Eurostoxx 600 – rating actions Dec 2019 – May 2020

Eurostoxx 600 S&P rated companies in December 2019	Eurostoxx 600 S&P rated companies in May 2020															
	AAA	AAA-	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	From B+ to D	Not Rated
AAA																
AAA-																
AA+																
AA				2												
AA-					6											
A+						9	3									
A							14	1								
A-								28	3							
BBB+									48	5						
BBB										59	8					
BBB-											21	2		1		1
BB+											1	14	1		1	
BB													8	2	1	
BB-														4	3	
From B+ to D															3	
Not Rated																238

Total downgrades = 31 (12.4% of total rated companies)

3 of the companies rated A+ in Dec 2019 in the last 5 months have been **downgraded to A**

Total upgrades = 1 (0.8% of total rated companies)

Source: Bloomberg

US corporates, 13% downgrades

S&P 500 – rating actions Dec 2019 – May 2020

S&P 500 S&P rated companies in December 2019 \ S&P 500 S&P rated companies in May 2020	AAA	AAA-	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	From B+ to D	Not Rated
AAA	2															
AAA-																
AA+			3	1												
AA				3	1											
AA-					7	1										
A+						15	3									1
A							26	2	1							
A-								45	6		2					
BBB+								2	59	3	1					
BBB									4	77	13	2				
BBB-											39	2	2		1	
BB+												21	3			
BB													14	3		
BB-													1	3	3	
From B+ to D															1	
Not Rated																63

Total downgrades = 50 (13.3% of total rated companies)

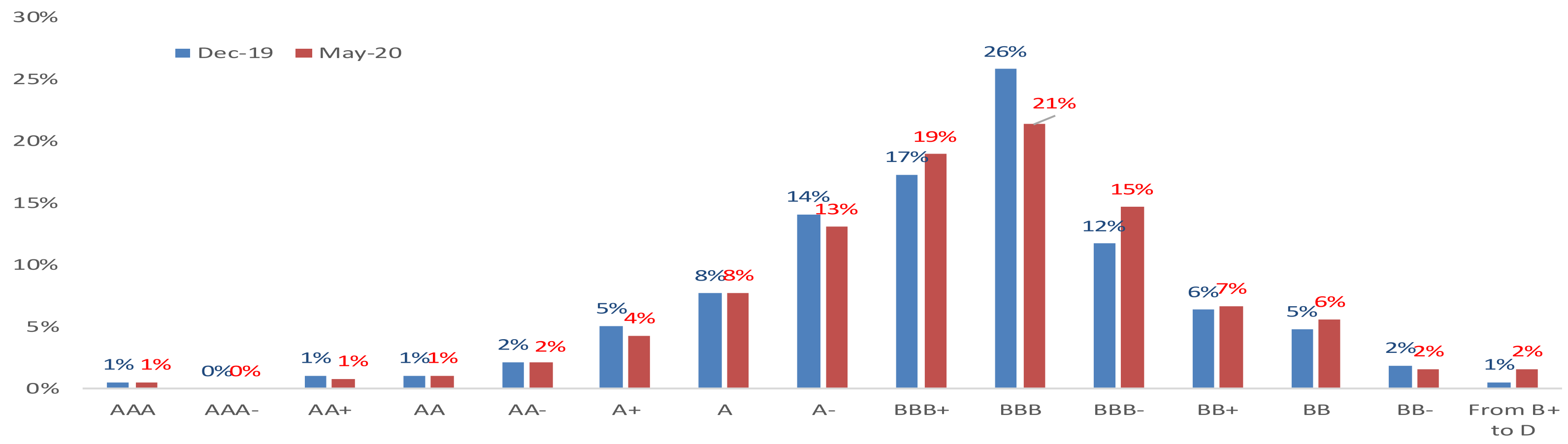
3 of the companies rated A+ in Dec 2019 in the last 5 months have been **downgraded to A**

Total upgrades = 7 (2.1% of total rated companies)

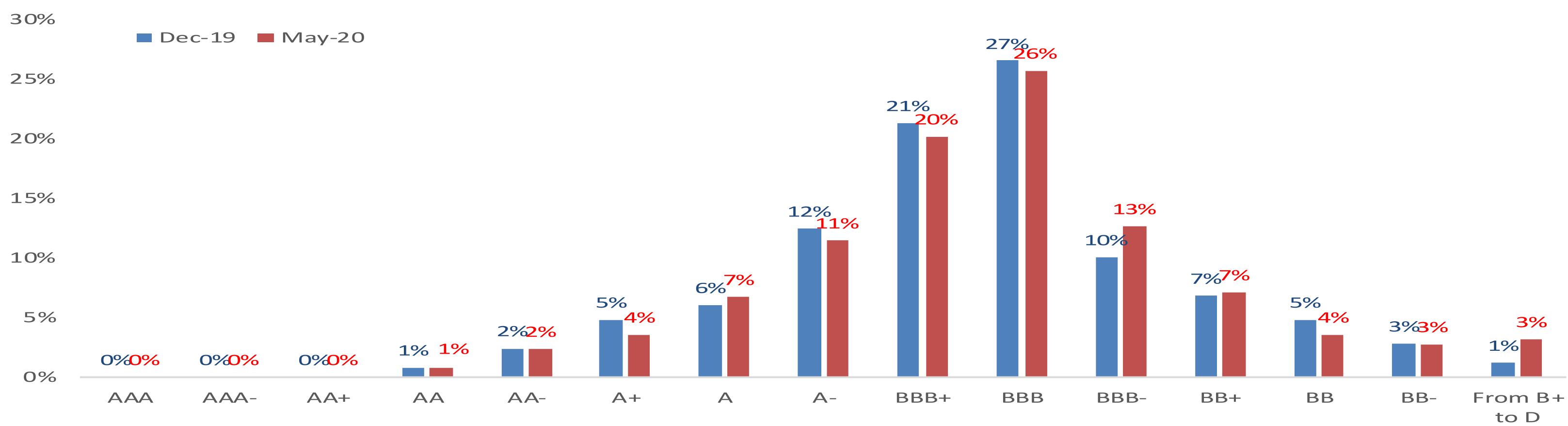
Source: Bloomberg

Appendix – composition of S&P 500 and Eurostoxx 600

S&P 500 by rating



Eurostoxx 600 by rating



Source: Bloomberg

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