BRIEFING NOTE: IMPACTS OF COVID-19 PANDEMIC ON 1Q 2020 DATA FOR LARGE INDUSTRIAL COMPANIES

Area Studi Mediobanca

Milano, 12 Maggio 2020

AREA STUDI MEDIOBANCA

The virus: SARS-CoV-2

- A pneumonia of unknown cause detected in Wuhan, China, was first reported to the World Health Organization Country Office in China on **31 December 2019**
- The **outbreak** was declared a Public Health Emergency of International Concern on **30 January 2020**
- On **11 February 2020**, World Health Organization announced a name for the new Coronavirus disease: **COVID-19**, caused by a virus, known as **SARS-CoV-2**
- The World Health Organization declared **the pandemic on 11 March 2020**

This **briefing note** is intended to provide a view on **1Q 2020 for large industrial companies worldwide**, in order to explore the developing situation and the implications for them

Coming soon: another briefing note is going to be released next week, in order to provide a view on 1Q 2020 for the Italian FTSE MIB industrial companies

SUMMARY

AREA STUDI MEDIOBANCA

ABSTRACT: A CRISIS LIKE NO OTHER

Section 1

First and foremost a human tragedy

The COVID-19 pandemic is first and foremost a human tragedy of potentially biblical proportions, affecting hundreds of thousands of people throughout the world, and causing thousands of deaths.

Sadly, as of Sunday 10 May 2020, the official death toll from the COVID-19 pandemic has increased to 283k and the total number of confirmed cases exceeds 4.1m globally. Over 1.4m people who had contracted the illness had been successfully treated and released from hospitals.

In Italy, the number of cases rose to 219.070, of which 105.186 had been successfully treated and released from hospitals. Deaths increased to 30.560.

SOME DEFINITIONS FOR A GLOBAL CRISIS IN AN INTERCONNECTED WORLD

Key words: interconnection, speed, uncertainty

The magnitude and **speed** of collapse in activity that has followed is unlike anything experienced in our lifetimes

This is a crisis like no other, and there is substantial **uncertainty** about its impact on people's lives and livelihoods

Definitions:

- A Crisis Like No Other
- These are truly unprecedented events with no adequate historical example
- A crisis of unprecedented proportions, unlike anything experienced in our lifetimes
- This is a truly global crisis as no country is spared
- This crisis is a world-changing event
- A crisis of an unprecedented scale, duration and geographic extent
- A deep and uneven recession

GLOBAL ECONOMIC IMPACT

Section 2

GLOBAL SHOCKS

The severe containment measures being taken to contain the COVID-19 epidemic in many countries worldwide have caused various shocks:

1. To supply: with the closure of businesses, and disruption to supply chains;
2. To demand: the global nature of the shock has effects on demand, especially in tourism, transport, goods etc.; the closure of businesses has effects on household income; containment measures have effects on consumer decisions; and so forth;
3. Shock for increased uncertainty that hits companies and consumers: important investment decisions, new openings, increased employment, etc. will have to be postponed; reduction of non essential costs;
4. To financial assets, with strong tensions on financial markets: flight to safety, increase in volatility, worsening of financial conditions, credit crunch risk, increase in spreads and interest rates;
5. To public finance: lower tax revenues and higher spending, hence increased public debt.

IMF FORECASTS

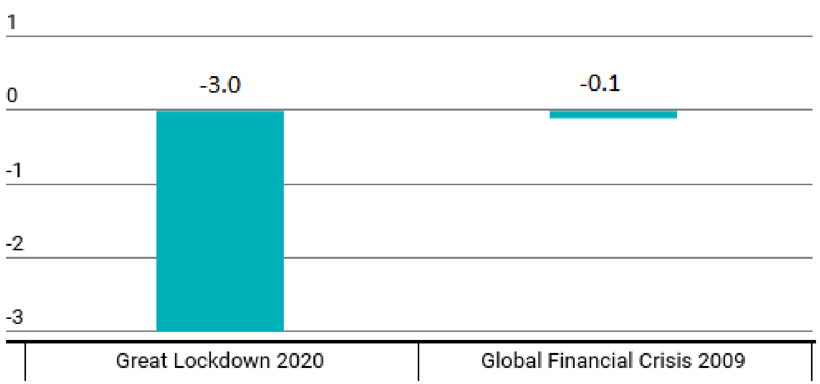
«The outlook for global growth for 2020 is negative, but we expect recovery in 2021. **The global economic impact is and will be severe**, but the faster the virus stops, the quicker and stronger the recovery will be»

(IMF Managing Director Kristalina Georgieva, 23 March 2020)

«The world is facing the worst economic downturn since the Great Depression, and far worse than the Global Financial Crisis» (IMF, 14 April 2020)

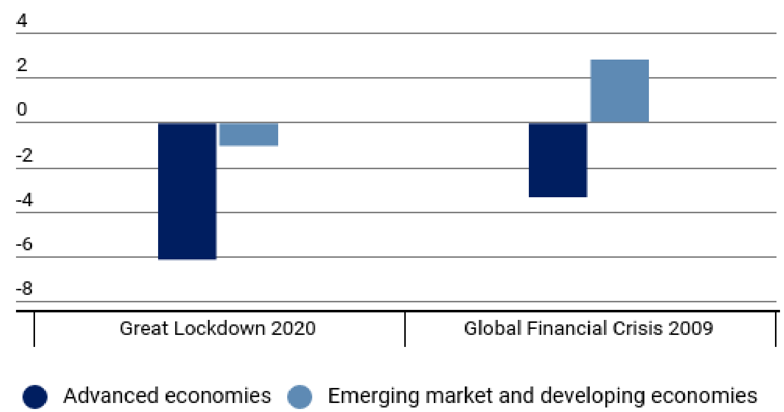
The Great Lockdown
The world economy will experience the worst recession since the Great Depression.

(real GDP growth, year-on-year percent change)



Global crisis
Both advanced economies and emerging market and developing economies are in recession. Major economies have also been significantly downgraded.

(real GDP growth, year-on-year percent change)

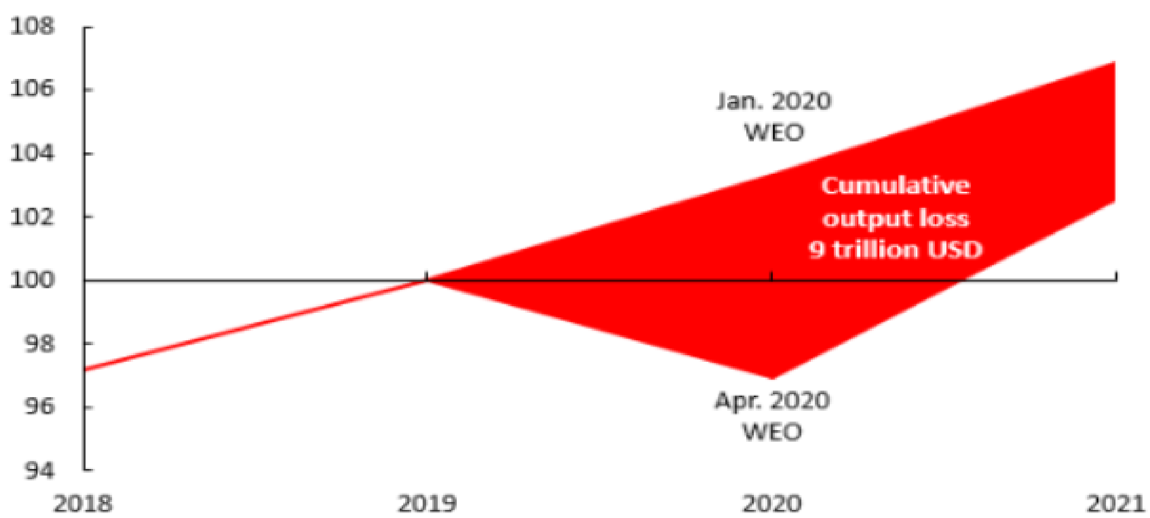


IMF, World Economic Outlook, 14 April 2020. The assumption is that the pandemic and required containment peaks in the second quarter for most countries in the world, and recedes in the second half of this year

AROUND 9 TRILLION DOLLARS LOST: GREATER THAN THE ECONOMIES OF JAPAN AND GERMANY, COMBINED

«The cumulative loss to global GDP over 2020 and 2021 from the pandemic crisis could be around 9 trillion dollars, greater than the economies of Japan and Germany, combined» (IMF, 14 April 2020)

(global real GDP level, index)

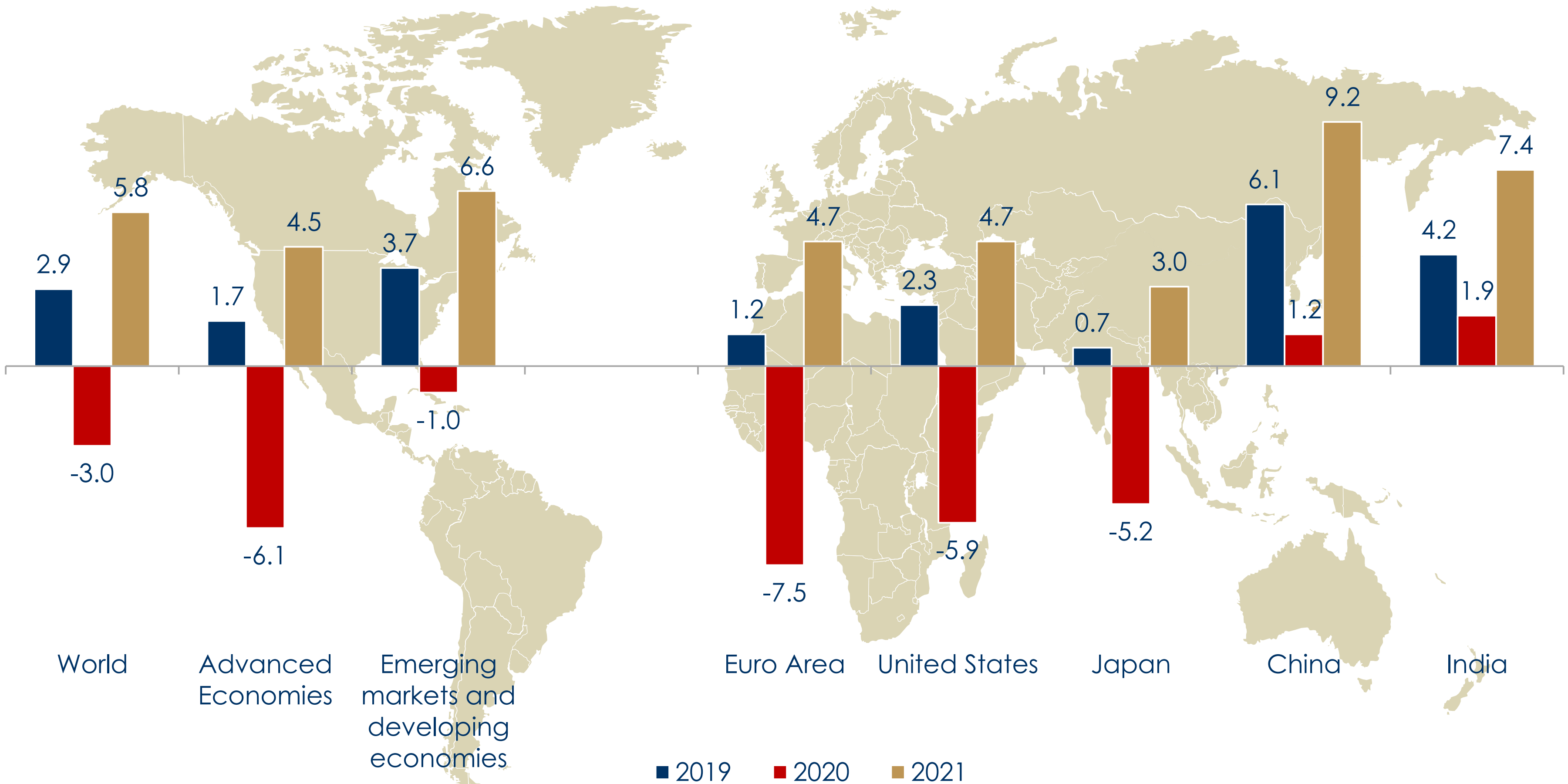


Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

IMF, World Economic Outlook, 14 April 2020. The assumption is that the pandemic and required containment peaks in the second quarter for most countries in the world, and recedes in the second half of this year

A TRULY GLOBAL CRISIS: NO COUNTRY IS SPARED

Real GDP, annual percentage change



IMF, World Economic Outlook, 14 April 2020. The assumption is that the pandemic and required containment peaks in the second quarter for most countries in the world, and recedes in the second half of this year

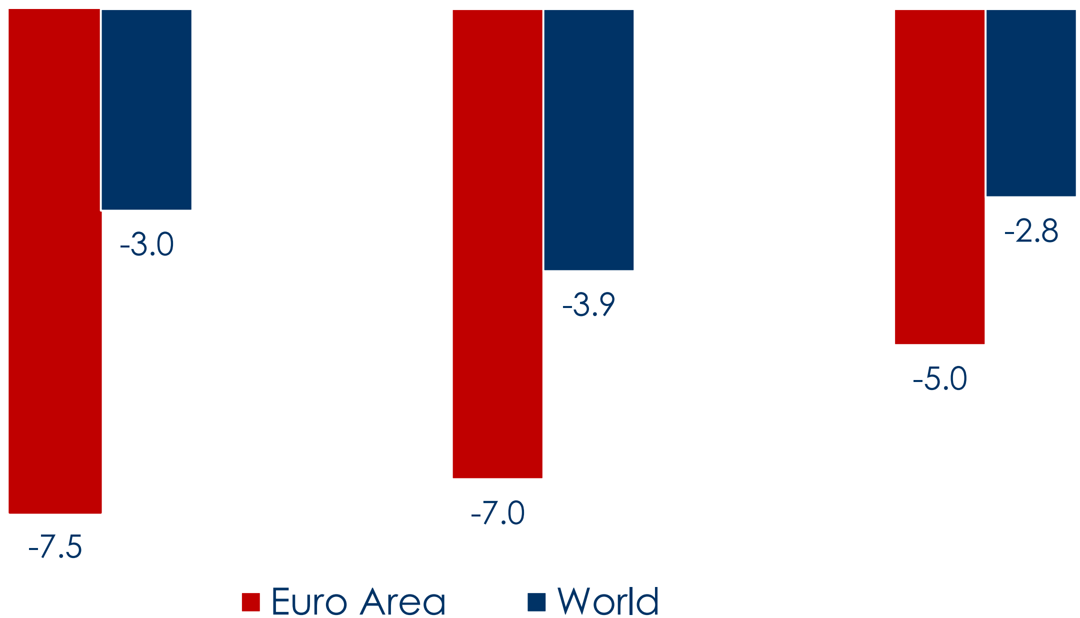
ABSTRACT OF 2020 GDP FORECASTS

Expected declines in GDP for 2020 (%)

INTERNATIONAL MONETARY FUND

FitchRatings

OXFORD ECONOMICS

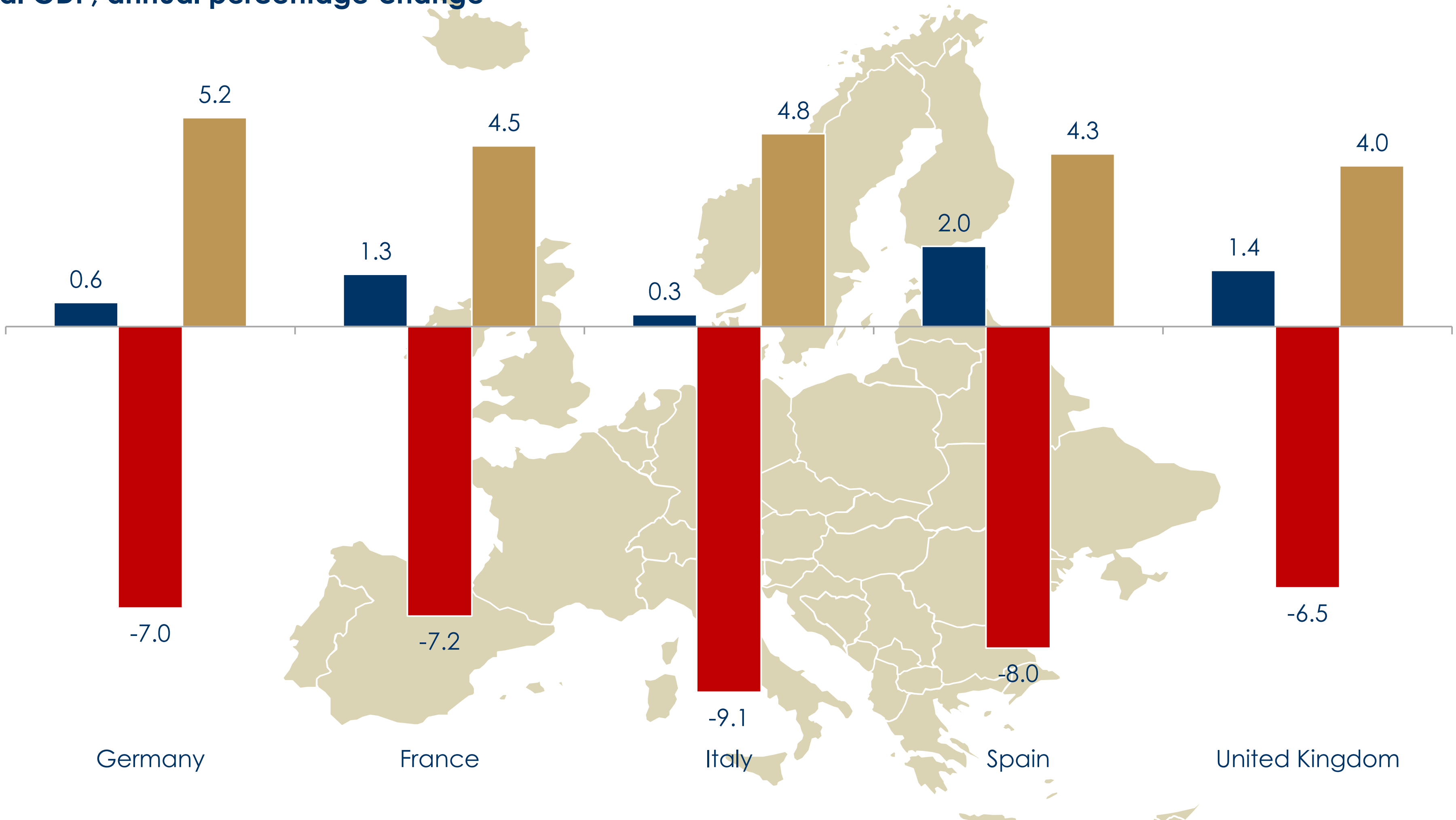


More pessimistic are European Commission forecasts relating to the Euro Area economy which will contract by a record 7.7% in 2020 and grow by 6.3% in 2021 (Spring 2020 Economic Forecast, 6 May 2020)

Reports published iin April 2020

ITALY: "WORST IN CLASS" AMONG MAIN EUROPEAN COUNTRIES

Real GDP, annual percentage change



IMF, World Economic Outlook, 14 April 2020. The assumption is that the pandemic and required containment peaks in the second quarter for most countries in the world, and recedes in the second half of this year. Greece: -10,0%, the worst country in Euro Area

ITALY AND EURO AREA: THE DIFFERENCES

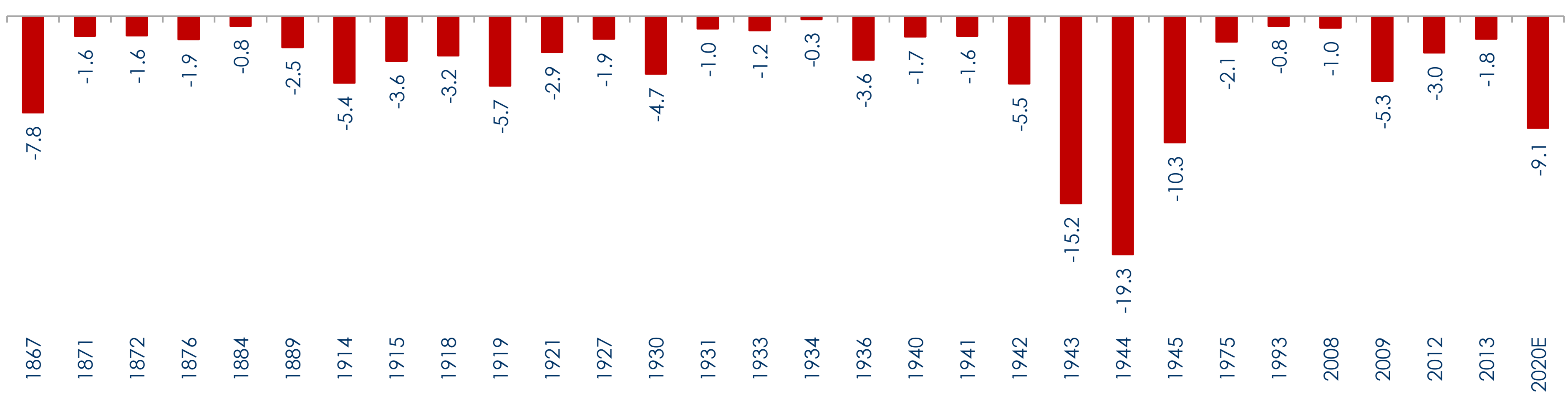
- Italy was the first European country to be hit violently by the pandemic, and has adopted severer restrictions as a result;
- Tourism, which globally speaking has been one of the worst-hit sectors, occupies a significant position in the Italian economy, accounting directly for 6% of Italian GDP in 2019, and indirectly for as much as 13%;
- The industrial fabric of Italy mainly consists of small and medium-sized enterprises which again have been the worst hit by the crisis;
- Italian bureaucracy is renowned for its slowness;
- Lower fiscal support measures in place than the Northern European countries mostly

ITALIAN ECONOMIC IMPACT

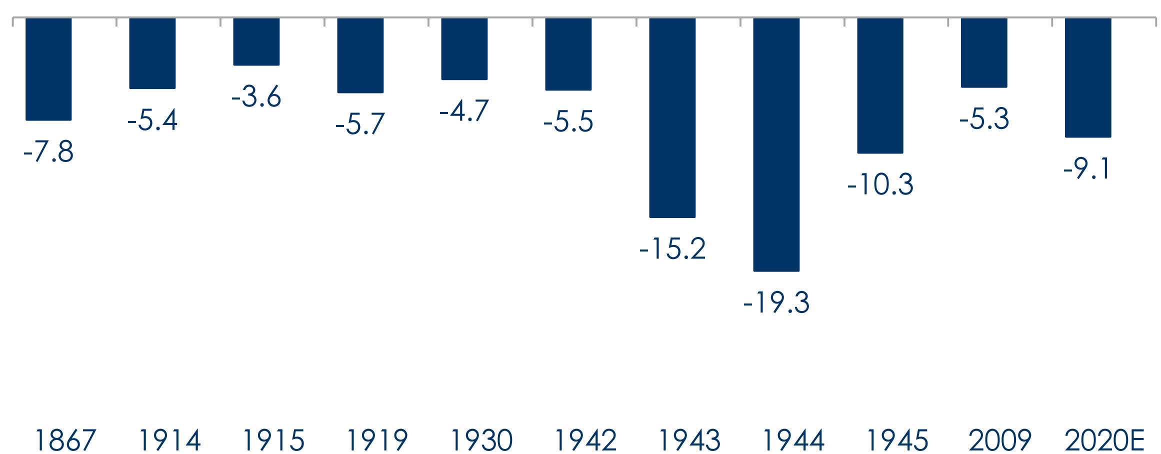
Section 3

For Italy: the worst crisis since the II world war

Real GDP, annual negative percentage change from 1861 to 2020E



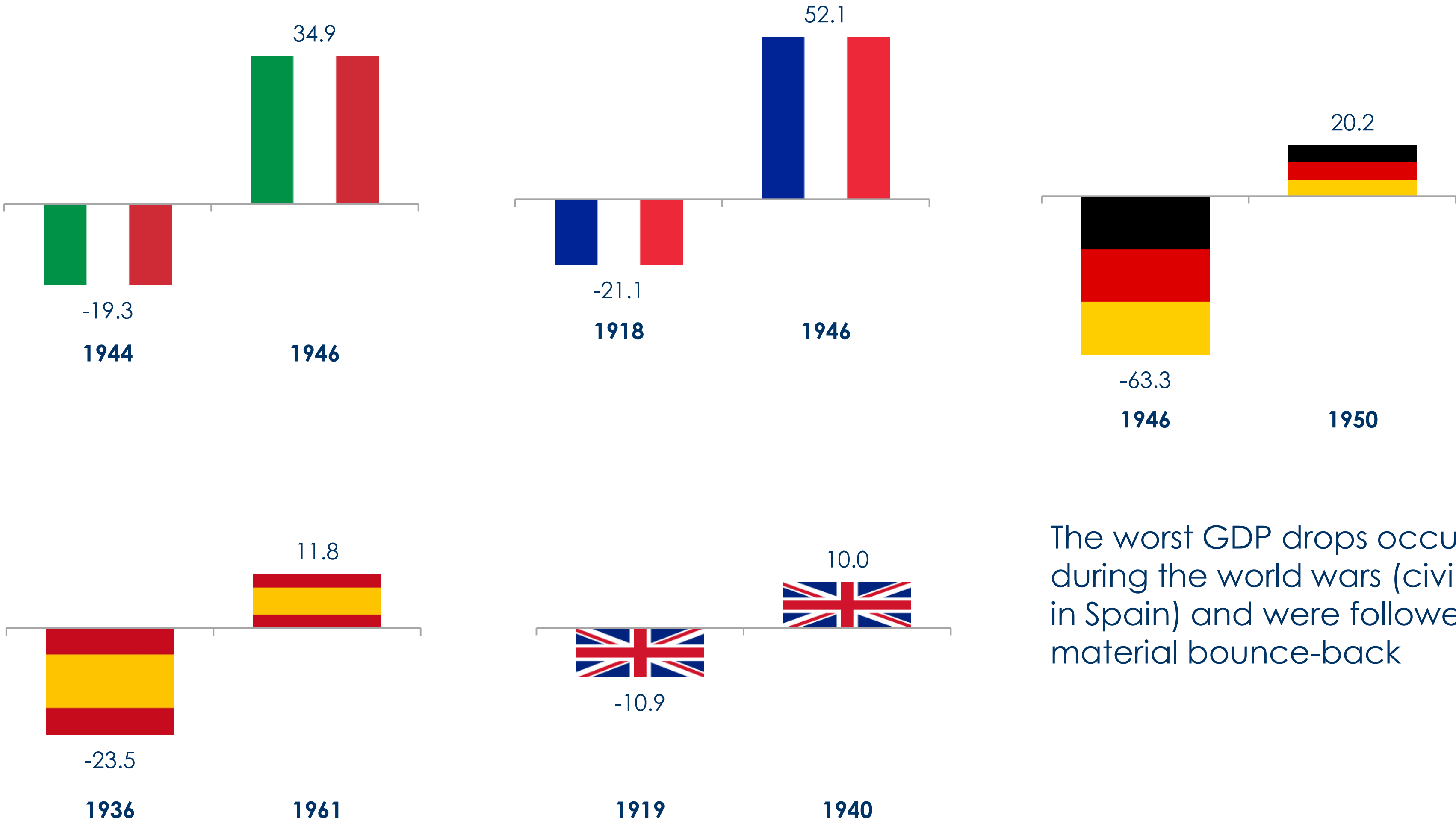
Italy: The biggest reductions in GDP from the unification of Italy (1861) to the present (annual percentage change)



ISTAT and IMF forecast

THE WORST AND THE BEST YEARS FROM 1870 TO THE PRESENT

Real GDP, annual percentage change

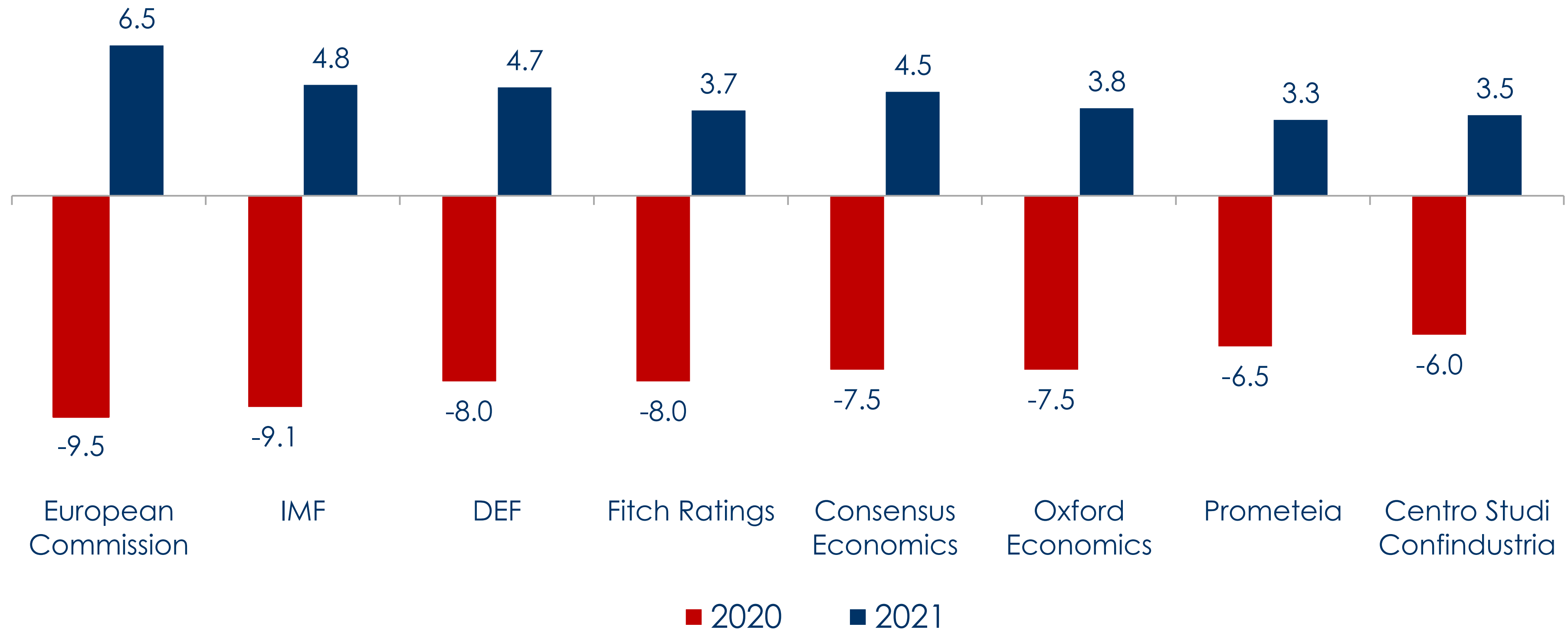


The worst GDP drops occured during the world wars (civil war in Spain) and were followed by material bounce-back

ISTAT, Maddison (2018) and IMF (2020)

ABSTRACT OF ITALIAN GDP FORECASTS (2020-2021)

Basically, the greater is the expected drop for 2020, the greater is the bounce-back for 2021

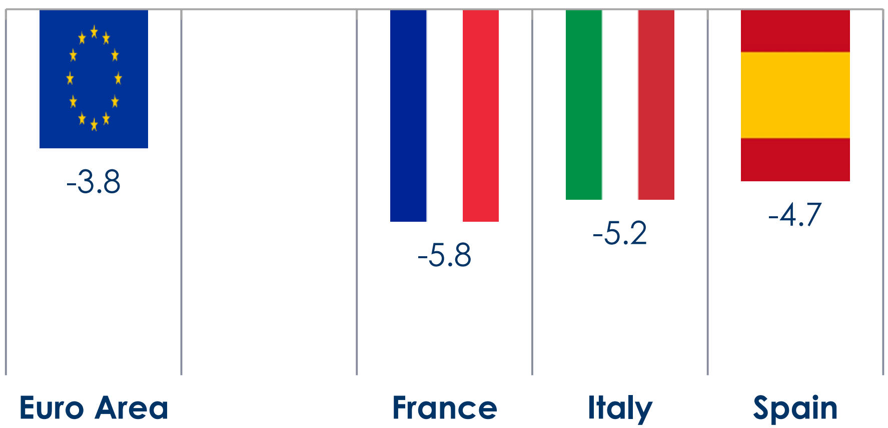


Forecasts for 2020 Italian GDP range from a -6.0% drop (loss of €107 bn which is roughly equal to Campania region GDP) to -9.5% drop (loss of €170 bn which is roughly equal to Veneto region GDP)

Reports published in March and April 2020 except for European Commission (6 May 2020)
DEF: *Documento di Economia e Finanza (Ministero dell'Economia e delle Finanze)*, 24 April 2020

GDP PRELIMINARY ESTIMATES FOR 1Q 2020

Real GDP, annual percentage change



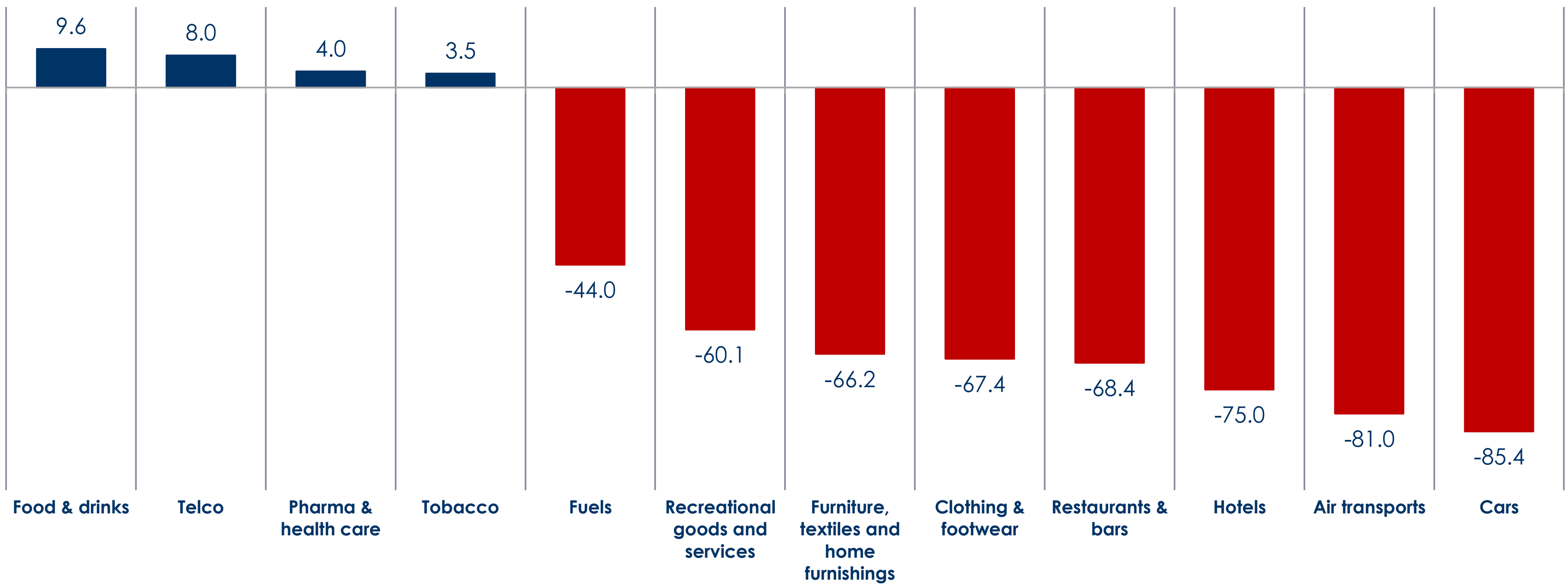
The preliminary estimate of quarterly GDP is affected by the obstacles posed by the ongoing pandemic emergency to the collection of basic data, which represent the input for national accounts estimates. As in current practice, data released on 30 April 2020 will be subject to revision in next calendar releases, as further information sources become available. These revisions are expected to be larger than usual.

Eurostat and ISTAT (data released on 30 April 2020). Germany: n.a.

ITALIAN CONSUMPTION IN MARCH 2020

According to data published by Confcommercio, consumption in Italy has gone down by **-31.7% in March 2020** when compared to the same month in 2019; the same indicator over the first quarter 2020 has recorded **-10.4%** following restrictions imposed as a result of the pandemic.

Consumption, March 2020/March 2019, percentage change



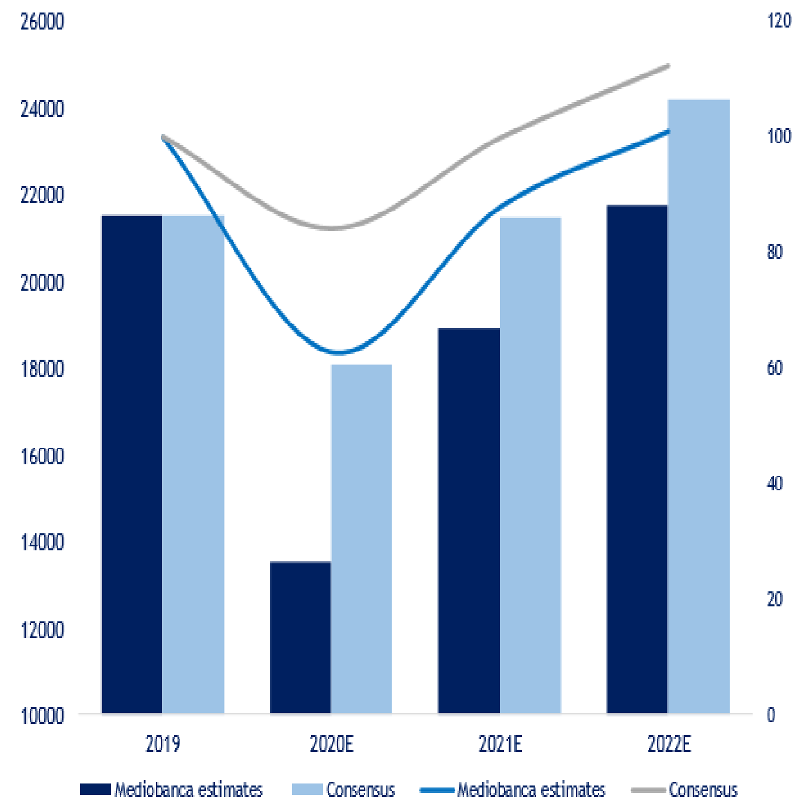
Congiuntura Confcommercio, 14 April 2020, and UNRAE data, 30 April 2020

Mediobanca Securities forecasts a U-shaped recovery

Unlike latest available consensus, that still seems to anticipate a V-shaped recovery, **Mediobanca Securities**' estimates indicate a U-shaped one. The Covid-19 pandemic is a significant headwind that is likely to continue affecting global economies and the market until we start to have visibility on the time needed to contain the contagion together with a coordinated, articulated and credible European response.

This leads its 2020-22E net profit trend (excluding Italian Banks) to take the form of a U-shaped recovery, with 2022E profits close to 2019 vs consensus forecasting higher profits in 2022 vs. 2019 (+12%). Mediobanca Securities have also cut EPS estimates (excluding Italian banks) by -30% in 2020 and -21% in 2021 mainly in cyclical stocks.

MBe net profit vs consensus: Total profits (€m) and rebased to 100 in 2019 (Ex Italian banks)



Source: Mediobanca Securities, Datastream Reuters

Data relating to 1Q 2020: large industrial companies worldwide

Section 4

HIGHLIGHTS: THE 1Q 2020 SCENARIO

- **The 1Q 2020 scenarios reflect the different timings of the spread of the COVID-19 pandemic in the various geographic regions in the world.** Companies which generate most of their turnover from China and Asia in general have seen the highest reductions in total sales in January and February 2020, whereas those which generate most of their turnover from Europe and the North and South America will suffer a larger reduction in 2Q 2020. Early signs of recovery in China can be seen from the end of 1Q 2020
- **For European and American companies,** the figures for February show the initial impact of the COVID-19 pandemic, and the March figures provided a better reflection. The bulk of the economic impact should be felt in 2Q
- **The largest impact of COVID-19 will be seen in 1H 2020 and a recovery is expected in 2H, set to be more visible in 4Q.** Most of companies have declared that for 2020, the impacts of the COVID-19 epidemic are currently difficult to assess, as the scale, duration and geographic extent of the crisis evolve every day

HIGHLIGHTS: THE 1Q 2020 DATA

- In this worldwide challenge, major corporations released their 1Q 2020 data starting at mid-April 2020. **Performances were quite dispersed through different sectors in which companies mainly operate**
- **Revenues growth in 1Q 2020/19.** Sectors up: WebSoft, large-scale distribution and pharma; sectors down: aircrafts manufacturers, oil&energy and fashion. The world companies average is equal to zero: increases in some sectors are offset by decreases in others
- **EBIT growth in 1Q 2020/19.** Sectors up: large-scale distribution, pharma and WebSoft; sectors down: aircrafts manufacturers, oil&energy, fashion and automotive. The world companies average is equal to -18.9%
- **Ebit margin 1Q 2020.** At the top: electronic payments (28.4%), pharma (26.8%) and electronics (22.0%); at the bottom: aircrafts manufacturers (-3.8%), oil&energy (1.2%) and automotive (1.5%). The world companies average EBIT in 1Q 2020 is equal to 14.3% (-2.4 percentage points on 1Q 2019). Aircrafts and Fashion: double-digit decreases in EBIT margin percentage points in 1Q 2020/2019
- **Net profit growth in 1Q 2020/19.** Sectors up: large-scale distribution, pharma and WebSoft; sectors down: aircrafts manufacturers, oil&energy, automotive and fashion
- **Worst in class.** Oil&energy, fashion and means of transport recorded double-digit drop in revenues, EBIT and net profits in 1Q 2020/19
- **Dividends.** Most of the best-performing companies (those with revenues increasing in 1Q 2020) confirmed their 2019 dividends for 2020 as well, or increased them by an average of 10%. Most of the worst-performing companies (revenues decreased in 1Q 2020) suspended dividends for 2020 or at least reduced them
- The appetite for **buyback** schemes has continued, among WebSoft and electronic payments companies in particular, not least because most of them are American (from the United States)

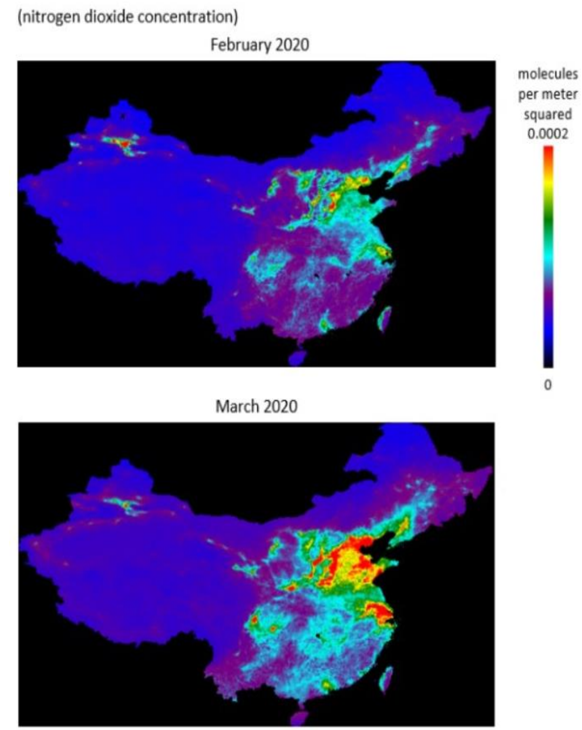
OUTLOOK

- **The 1Q 2020 scenarios reflect the different timings of the spread of the COVID-19 pandemic in the various geographic regions in the world.** Companies which generate most of their turnover from China and Asia in general have seen the highest reductions in total sales in January and February 2020, whereas those which generate most of their turnover from Europe and the North and South America will suffer a larger reduction in 2Q 2020. Early signs of recovery in China, Taiwan and South Korea can be seen from the end of 1Q 2020
- **For European and American companies,** the figures for February show the initial impact of the COVID-19 pandemic. In February exports to Asian markets suffered, but there was basically no impact in Europe and the USA. The March figures provided a better reflection of the COVID-19 pandemic worldwide. **The bulk of the economic impact should be felt in 2Q: both top- and bottom-line declines in the 2Q 2020 are expected to be more pronounced than those recorded in 1Q 2020**

Early signs of recovery from China

- The positive piece of news is that many companies reopened their stores and production sites in China starting from mid-March 2020: the environment in China is gradually improving, although not yet back to normal. Early signs of recovery in China, Taiwan and South Korea can be seen from the end of 1Q 2020
- The recovery in China, albeit limited, is encouraging, suggesting that containment measures can succeed in controlling the epidemic and pave the way for a resumption of economic

Satellite data show recent increases in nitrogen dioxide concentration over China in March, suggesting a pick-up in industrial and transport activity compared to the previous month (source: European Space Agency)



Nitrogen dioxide concentration in the athmosphere is an indicator of emissions from fossil fuel and biomass burning. As such, it can be a proxy measure for changes in industrial and transportation activity

CEOs: WHAT ABOUT FISCAL YEAR 2020 RESULTS?

- But there is still huge **uncertainty about the future** path of the pandemic and a resurgence of its spread in China and other countries cannot be ruled out. Chinese consumers will be keen to start buying again, in what is known as "revenge spending". But it is less likely to be the case for consumers in Italy and the rest of Europe. In other words, it will take Italy and Europe in general the same amount of time as it takes China to emerge from the crisis situation, but it will probably take more time for spending to return to their previous levels
- Most of the companies' Boards of Directors believe that the progress of the emergency, accompanied by the uncertainties related to further development in terms of impact on public health and on the country's production, economic and social system do not currently allow any further quantification of the effects on the fiscal year 2020 results. The resulting negative effect on sales and earnings are impossible to quantify at this stage: **a reliable prediction of the business performance in 2020 is not possible**
- Most of the companies have revised their estimates assuming the largest impact of COVID-19 in 1H 2020 and recovering in 2H, set to be more visible in 4Q, and have cut their FY2020 projections. Capex will be generally lowered. CEOs generally consider 2H 2020 as a semester of stabilization, and a rebound hopefully in 2021

Most of companies have declared that for 2020, the impacts of the COVID-19 epidemic are currently difficult to assess, as the scale, duration and geographic extent of the crisis evolve every day

1Q 2020 LARGE INDUSTRIAL COMPANIES

In this worldwide challenge, major corporations released their 1Q 2020 results starting at mid-April 2020. Performances were quite dispersed through different sectors in which companies mainly operate.

Regarding revenues in 1Q 2020/1Q 2019, WebSoft, large-scale distribution and pharma companies are at the top end of the spectrum, while aircrafts manufacturers, oil&energy and fashion companies are at the bottom.

Industrials (multinational companies aggregates)	Change net sales 1Q 2020/1Q 2019	Change EBIT 1Q 2020/1Q 2019	Change Net profit 1Q 2020/1Q 2019
	(%)	(%)	(%)
WebSoft	17.4	17.6	14.9
Large-scale distribution	9.1	33.6	34.8
Pharma	6.1	18.1	20.5
Electronic payments	4.7	-8.9	-17.0
Electronics	4.5	10.9	10.0
Food & drinks	2.0	-8.3	-5.1
of which: food	3.4	-3.4	-17.3
drinks	-0.1	-10.1	0.4
Media & Entertainment	-0.5	-7.7	-28.3
Telco	-2.6	-5.9	-20.4
Means of transport	-10.8	-88.0	neg./pos.
of which: automotive	-9.1	-75.8	-92.4
aircrafts	-22.1	neg./pos.	neg./pos.
Fashion	-14.1	-81.5	-92.0
Oil & energy	-15.9	-87.8	neg./pos.
Average	**0.0**	**-18.9**	**n.c.**

1Q 2020 EBIT MARGIN

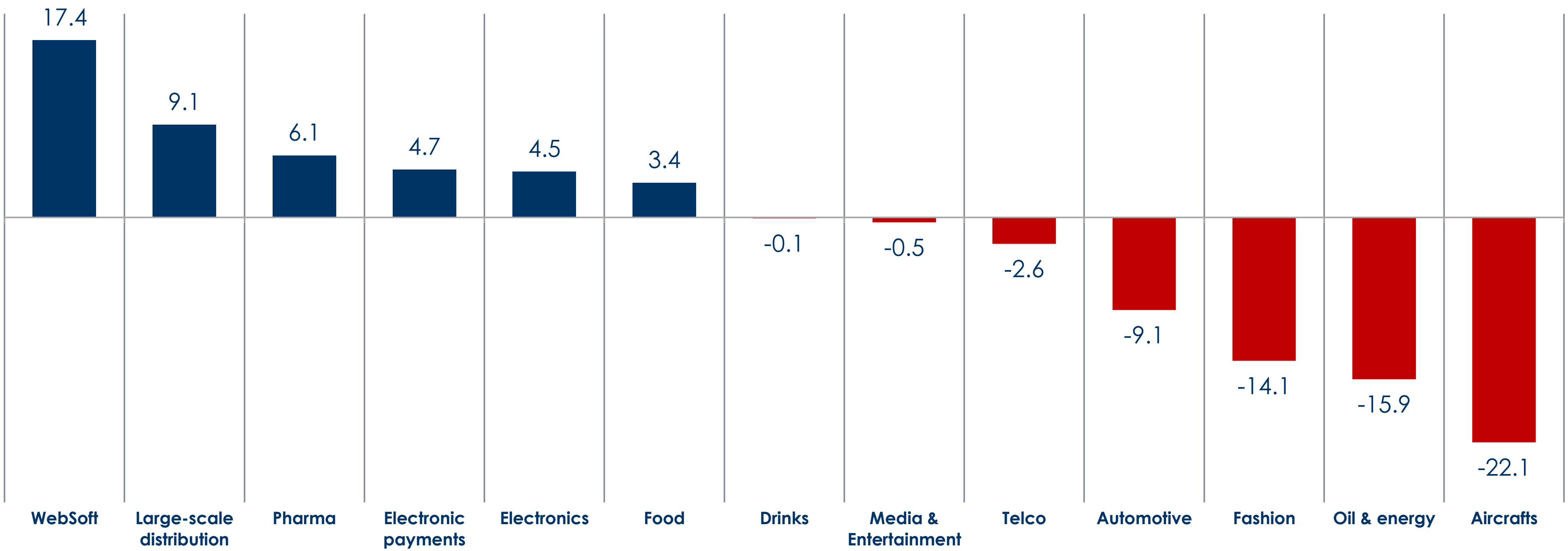
Industrials (multinational companies aggregates)	Ebit margin 1Q 2020	Ebit margin 1Q 2019	Change ebit margin 1Q 2020/1Q 2019
	(%)	(%)	p.p.
Electronic payments	28.4	32.6	*-4.2*
Pharma	26.8	24.2	*2.6*
Electronics	22.0	20.9	*1.1*
Telco	18.5	19.1	*-0.6*
Media & Entertainment	17.9	19.3	*-1.4*
WebSoft	17.3	17.3	*0.0*
Food & drinks	15.0	16.9	*-1.9*
of which: drinks	20.0	22.2	*-2.2*
food	9.3	10.2	*-0.9*
Large-scale distribution	6.6	5.6	*1.0*
Fashion	2.9	13.6	*-10.7*
Oil & energy	1.2	8.3	*-7.1*
Means of transport	0.8	6.1	*-5.3*
of which: automotive	1.5	5.8	*-4.3*
aircrafts	-3.8	7.8	*-11.6*
Average	**14.3**	**16.7**	**-2.4**

1Q 2020 NET PROFIT MARGIN

Industrials (multinational companies aggregates)	Net profit margin 1Q 2020	Net profit margin 1Q 2019	Change net profit margin 1Q 2020/1Q 2019
	(%)	(%)	p.p.
Electronic payments	20.2	25.5	*-5.3*
Pharma	21.1	18.7	*2.4*
Electronics	15.6	14.9	*0.7*
WebSoft	13.2	13.5	*-0.3*
Media & Entertainment	9.4	13.0	*-3.6*
Telco	9.4	11.5	*-2.1*
Food & drinks	9.0	9.8	*-0.8*
of which: drinks	12.2	12.1	*0.1*
food	5.4	6.9	*-1.5*
Large-scale distribution	4.6	3.9	*0.7*
Fashion	0.9	9.4	*-8.5*
Means of transport	-0.1	5.5	*-5.6*
of which: automotive	0.4	5.4	*-5.0*
aircrafts	-4.0	6.0	*-10.0*
Oil & energy	-2.8	5.0	*-7.8*
Average	**9.1**	**11.9**	**-2.8**

REVENUES GROWTH IN 1Q 2020/2019

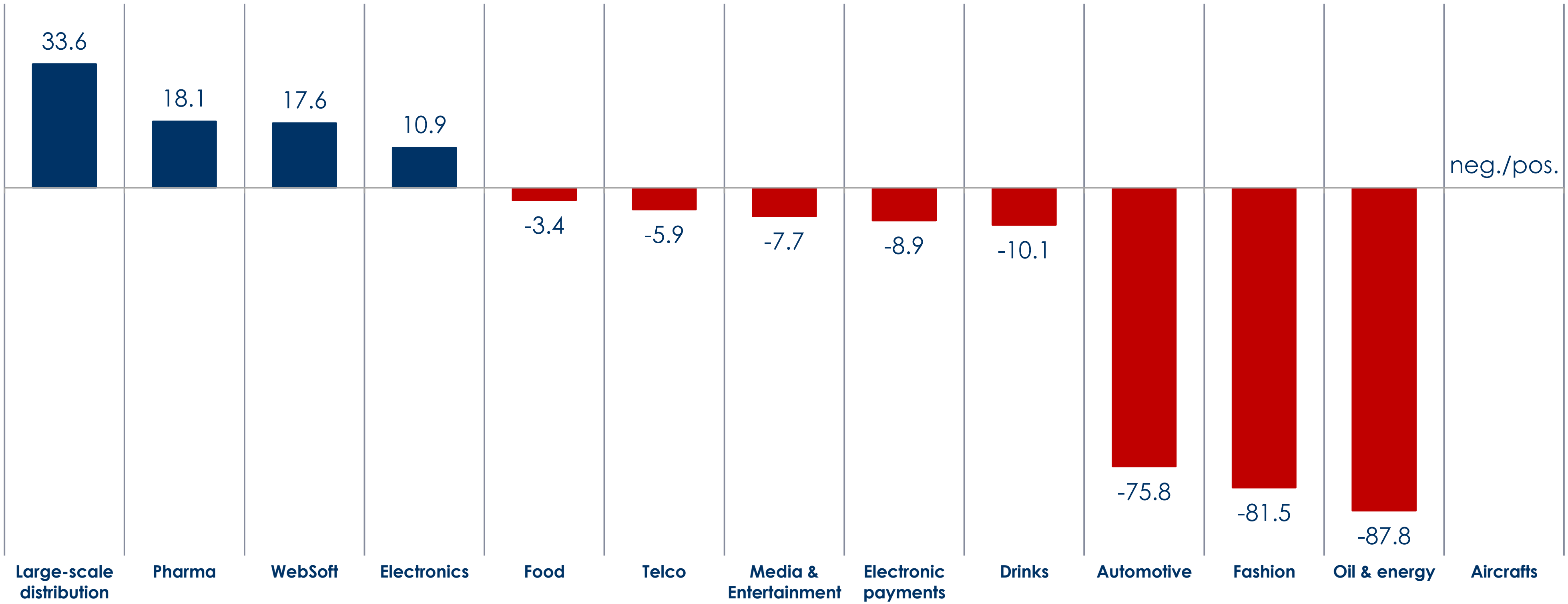
Net sales 1Q 2020/2019, percentage change – Multinational companies by sectors



The world companies average is equal to zero: increases in some sectors are offset by decreases in others

EBIT GROWTH IN 1Q 2020/2019

EBIT 1Q 2020/2019, percentage change – Multinational companies by sectors

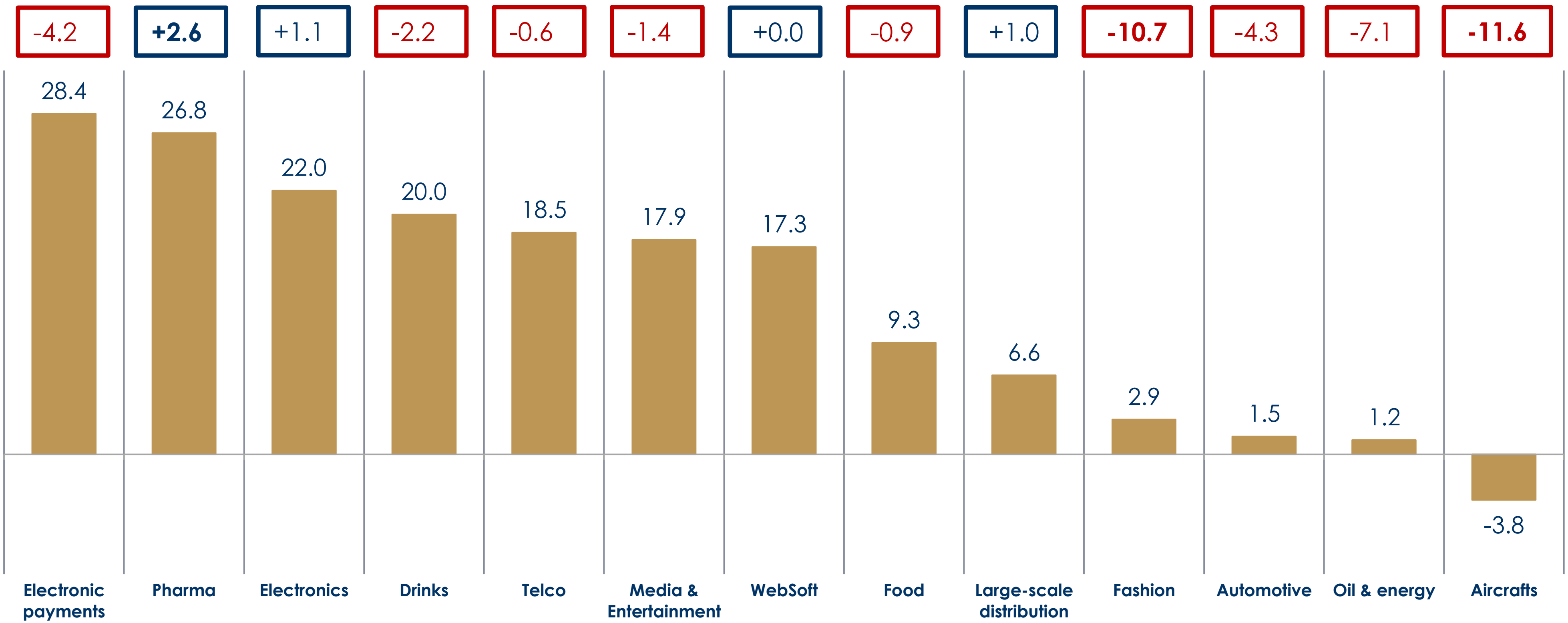


The world companies average is equal to -18.9%

WebSoft companies' without Amazon (which is at 38% of total 1Q 2020 revenues and has a -9.8% decrease in EBIT margin in 1Q 2020/19): EBIT increased by +22.5% in 1Q 2020-19

EBIT MARGIN 1Q 2020

Ebit margin 1Q 2020 (columns) and change in ebit margin 1Q 2020/19 (percentage points) – Multinational companies by sectors

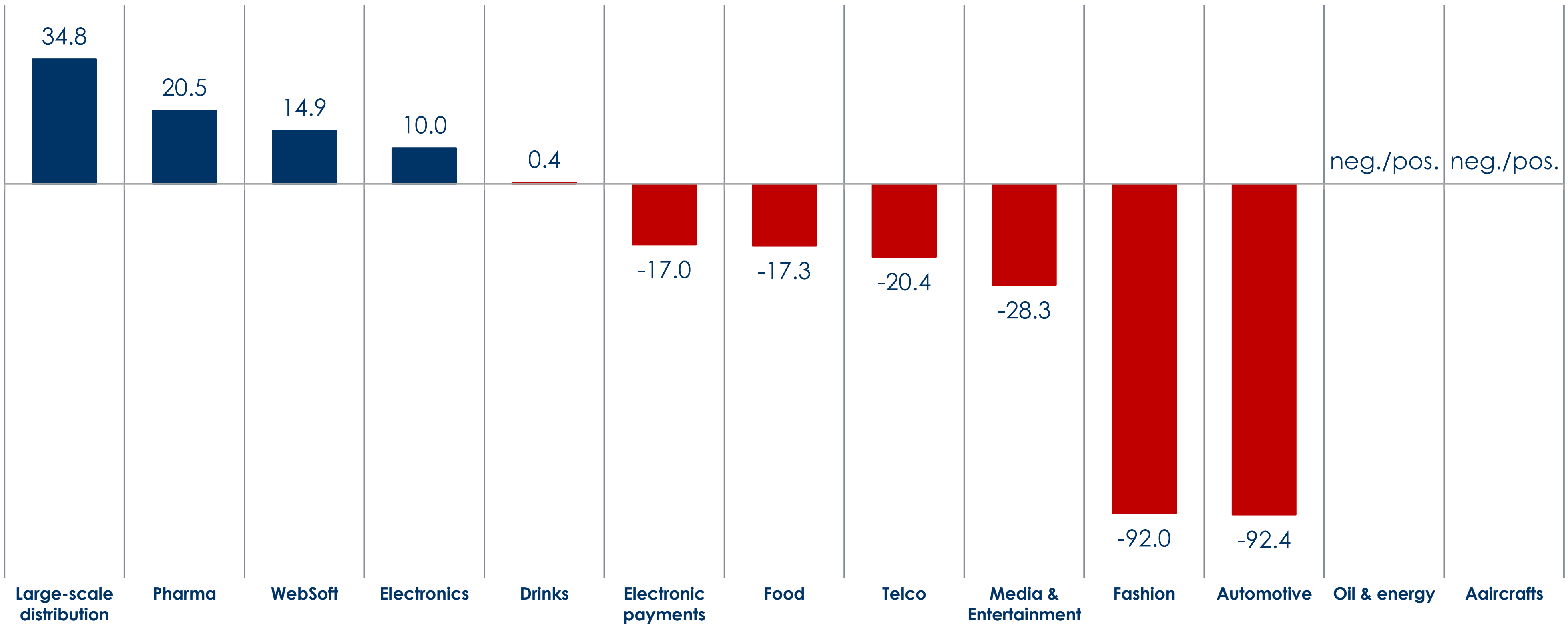


The world companies average EBIT in 1Q 2020 is equal to 14.3% (-2.4 percentage points)
Aircrafts and Fashion: double-digit decreases in EBIT margin percentage points

WebSoft companies' without Amazon (which is at 38% of total 1Q 2020 revenues and has the lowest EBIT margin): the Ebit margin increased by +2.0 percentage points, and the EBIT margin is equal to 24.7% in 1Q 2020

Net profit growth in 1Q 2020/2019

Net profit 1Q 2020/2019, percentage change – Multinational companies



WebSoft companies' without Amazon (which is at 38% of total 1Q 2020 revenues): the net profit margin increased by +23.0%
The world companies average cannot be calculated as means of transport and oil&energy sectors became negative in 1Q 2020

WEBSOFT: REVENUES DRIVEN BY CLOUD SERVICES, NEW SUBSCRIPTIONS AND E-COMMERCE

- For **WebSoft** companies, 1Q 2020 results were positively impacted by the COVID-19 pandemic, with the sector being driven by cloud services, new subscriptions, increased users' search activity and e-commerce (partially offset by travel online sales).
- **Global revenues** can be broken down as follows: advertising revenues (which are at 29% of the total net sales), online stores (28%), cloud services (18%), subscription services (8%) and other revenues (the remain 17%). WebSoft companies' global revenues for 1Q 2020-19 increased by +17.4%, of which cloud services +27.4%, news subscriptions +26.5%, online stores +22.8%, and advertising revenues +13.5%. All revenues' components increased in 1Q 2020, with the exception of travel online sales (-18.4%) and related advertising (-28.1%).
- **EBIT** increased by +17.6% and net profit by +14.9% in 1Q 2020-19. The Ebit margin remained stable, and net profit margin slightly decreased by -0.3 percentage points. For e-commerce channel, shipping costs increased by roughly +49% in 1Q 2020 and they increased to 14.5 as a percentage of net sales in 1Q 2020 (12.3% in 1Q 2019). The increase in shipping costs was partially offset by the increase of online sales in 1Q 2020 related to the "stay at home".
- Most of the WebSoft companies have confirmed their FY 2019 **dividends** for 2020 as well, or increased them by an average of 11%. The appetite for **buyback** schemes has continued, and almost doubled.
- The positive trend of WebSoft companies is expected to continue in the **2Q 2020**.
- **The worldwide public cloud services market** is expected to grow at least 17% in 2020 (according to Fabio Pavan, Mediobanca Securities).

WebSoft companies' without Amazon (which is at 38% of total 1Q 2020 revenues and has the lowest EBIT margin): EBIT increased by +22.5% and net profit by +23.0% in 1Q 2020-19; the Ebit margin increased by +2.0 percentage points, and net profit margin increased by +1.6 percentage points; the EBIT margin is equal to 24.7% in 1Q 2020 and to 22.7% in 1Q 2019
The Italian cloud market is expecting to grow at least at a 20% pace in the coming years (Fabio Pavan, Mediobanca Securities)

LARGE-SCALE DISTRIBUTION: CHANGES IN CONSUMERS' BUYING BEHAVIORS

- The COVID-19 epidemic resulted in an unprecedented growth in demand directed for **large-scale distribution**, and particularly for the formats convenience, urban stores and e-commerce.
- The effect of COVID-19 pandemic on large-scale distribution is connected with significant **changes in consumers' buying behaviors**. Food sales strongly increased, driven by packaged, long-life products, giving the perception of increased protection and hygiene (with the demand accentuated by stocking patterns); para-pharmaceutical products' sales increased too, driven by a strong demand for personal protective, hygiene and other healthcare equipments. At the opposite end of the spectrum, non-food sales were down, penalized by certain categories such as apparel, which is not considered a priority. It can be noticed a sharp drop in the Cash & Carry segment sales too, a trend that will continue until the end of the containment measures, when bars and restaurant services will be reopened. **In 2Q 2020 a reversal trend towards destocking is expected.**
- The lockdown measures favored proximity and supermarkets, which are closer to home and more accessible, at the expense of hypermarkets. Across all formats, the number of store visits was reduced, while average basket and average value sales increased significantly for the cancellation of promotions. Several specific measures were introduced to meet core mission of securing food supply for people: capacity uplift for home delivery, click & collect and e-commerce solutions have been strengthened. Logistic costs increased, resulting from distancing requirements, rising transportation costs and other logistic constraints.
- **Global revenues** for 1Q 2020-19 increased by +9.1%, and growth of food e-commerce on average reached more than +40% in Q1 2020 in Europe. EBIT for 1Q 2019-20 increased by +33.6% and net profit by +34.8%. The Ebit margin increased by +1.0 percentage points, and net profit margin increased by +0.7 percentage points. Most of the companies have confirmed their FY 2019 **dividends** for 2020 as well, or increased them by an average of 10%.

PHARMA: THE IMPORTANCE OF RESEARCH AGAINST CORONAVIRUS

- For pharma companies, 1Q 2020 has been impacted positively by the COVID-19 pandemic, with the sector being driven by respiratory system medications in particular. **The increase in certain categories of product (i.e. respiratory system and anti-viral drugs)** has been partly offset by the negative impact on demand for other products, as a result of the reduction in medical examinations and surgical procedures; a trend which could become even more pronounced in 2Q 2020.
- **Global revenues for 1Q 2020-19 increased by 6.1%,** EBIT by 18.1% and net profit by 20.5%. The Ebit margin increased by 2.6 percentage points, and the net profit margin by 2.4 percentage points.
- Most companies in the pharma sector have confirmed their FY 2019 **dividends** for 2020 as well, or increased them by an average of 8%.
- **Most companies are experimenting with vaccines and other drugs to combat Coronavirus**, which can lead to a material impact on pharmaceutical companies' sales if successful. On 1 May the American Food and Drug Administration has given emergency use authorization to the antiviral drug Remdesivir (produced by Gilead Sciences) to treat hospitalized patients with the Coronavirus. These recent positive findings are a starting point in the fight against the respiratory disease.

Remdesivir is an investigational nucleotide analog with broad-spectrum antiviral activity both in vitro and in vivo in animal models against multiple emerging viral pathogens, including Ebola, Marburg, MERS and SARS. In vitro testing conducted by Gilead Sciences (a research-based biopharmaceutical company, with headquarters in California) has demonstrated that Remdesivir is active against the virus that causes COVID-19.

ELECTRONIC PAYMENTS: REVENUES DRIVEN BY THE EFT TRANSACTIONS

- Regarding **electronic payments** companies, 1Q 2020 results were positively impacted by the COVID-19 pandemic, with the sector being driven by the EFT (electronic funds transfer) transactions and related services. The increase in the EFT transactions revenues was partially offset by fewer ATM transactions and the global decline in consumers' purchasing power. Money Transfer transactions experienced the impacts of consumer movement restrictions, especially at retail outlets; however, digital product offerings played a key role in offsetting the retail-based transaction declines. The pandemic resulted in the widespread reduction of business activity, adversely impacting consumers, suppliers and business partners. Additionally, the increase in travel restrictions, social distancing measures and unemployment lead to a change in consumer and commercial behavior.
- **Global revenues** for 1Q 2020-19 increased by +4.7%, of which Transaction and Data Processing +5.4%, and related services +2.3%, partially offset by the negative performance of Transfer Money (-8.3%). Bitcoin sector saw an accelerating growth in 1Q 2020 by triple-digit rate (+364%), even if it's only at 1.1% of total revenues.
- Most of the companies have confirmed their FY 2019 **dividends** for 2020 as well, or increased them by an average of 20%. The appetite for **buyback** schemes has continued, and more than doubled.

Electronics: revenues driven by semiconductors demand

- For **electronic** companies, demand for data centers, semiconductors and microprocessor increased, demand for memories was solid mainly for server and PC and steady for mobile in 1Q 2020. Devices' shipments fell as COVID-19 impacts started taking effect globally toward the end of the quarter. Electronic sector performance is connected with the large presence of Asian companies (mainly based in China, Taiwan and Korea).
- **Global revenues** for 1Q 2020-19 increased by 4.5%, driven by a more than +20% increase in sales of semiconductors and microprocessors and decelerated by around +2% increase in sales of electronic devises connected with store closures. In 1Q 2020/19 EBIT increased by 10.9% and net profit by 10.0%. The Ebit margin increased by 1.1 percentage points, while net profit margin increased by 0.7 percentage points.
- Most of companies have confirmed their FY 2019 **dividends** for 2020 as well, or slightly increased them. Most of companies declared that electronic business will continue as usual and results in 1Q 2020 have been almost in line with expectations.
- **For 2020,** demand for data centers, semiconductors and microprocessors is expected to remain strong in 1H 2020, and a weaker Enterprise & Government demand is expected in 2H 2020. 2Q 2020 market demand for new devices is expected to decline and competition among global manufactures will be intensified with offer differentiation and new model launches also by introducing 5G models to mass-markets. On average net profits are expected to register a single-digit growth in 2Q 2020 and revenues from semiconductors and microprocessors is expected to increase by 20% again.

Food & Drinks: shift from out-of-home to in-home consumption

- The effect of COVID-19 pandemic on food&drinks companies is connected with significant changes in **consumers' buying behaviors**, with unprecedented swings in weekly demand accentuated by stocking patterns in the first weeks of lockdown, as well as shifting preferences to larger pack sizes and packaged, long-life products, giving the perception of increased protection and hygiene, and a significant shift from out-of-home to in-home consumption. The effect of COVID-19 pandemic also varies by geography, product category and sales channel, depending on the timing of the pandemic, the scope of restrictions and consumer behavior.
- **Global revenues for 1Q 2020-19 increased by +2.0%,** EBIT decreased by -8.3%, and net profit by -5.1%. The Ebit margin decreased by -1.9 percentage points, and the net profit margin by -0.8 percentage points.
- Out-of-home channels posted negative growth, in-home channels posted positive growth and e-commerce sales grew with sharp increasing investments
- Most of the companies in the food & drinks sector have confirmed their FY 2019 **dividends** for 2020 as well, or – for food companies - increased them by an average of 10%.
- **The challenge for this sector** has been to maintain service levels and address the reduced efficiency of the supply chain resulting from distancing requirements, lower productivity, rising transportation costs and other logistics constraints. Most of companies have reduced and reallocated marketing expenses: consumer communication has been adapted to support activities that help on-trade customers and reflect social distancing.

MEDIA& ENTERTAINMENT: PENALIZED BY THE ADVERTISING MARKET

- The **Media & Entertainment** companies generally recorded lower advertising revenues, and at the opposite end of the spectrum they experienced a good increase in audience for TV and digital services. Moreover much of production of new contents has been curtailed or suspended in response to lockdown, social distancing and health guidelines. A significant negative impact on business has caused also by postponement or cancellation of sporting events, theatrical and theme parks closures and the suspension of entertainment content production. On the positive side, the world turns to the internet for information and entertainment more than ever before. However the bulk of the economic impact should be felt in 2Q especially because most of companies are American.
- **Global revenues** can be broken down as follows: pay and streaming TV subscriptions (which is at 35% of total net sales), advertising (25%), new contents production and distribution (14%), theme parks, digital services and other revenues (the remain 26%). Media & Entertainment companies' global revenues for 1Q 2020-19 declined by -0.5%, of which theme parks -29%, advertising revenues -3%, new contents production and distribution -2%, partially offset by new subscriptions (driven by streaming TV) +1% and digital services +8%.
- The drop for advertising market translated into a visible impact at margins' level: **EBIT** were down by -7.7% and net profit even more by -28.3%. The Ebit margin decreased by -1.4 percentage points, and the net profit margin by -3.6 percentage points.
- Most of companies have suspended **dividends** for 2020.

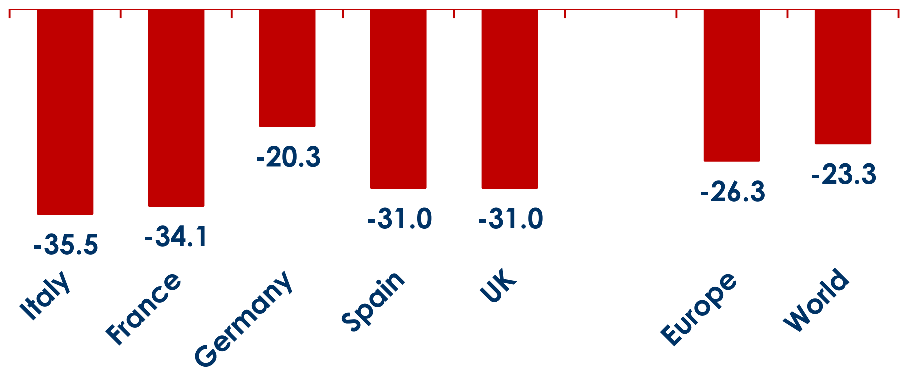
TELCO COMPANIES: AN ESSENTIAL ROLE

- The role of **telco** companies is essential in this new environment, where demand for new services (smart working apps, video-conference tools, cloud services, gaming) and more data (voice and video traffic) through internet has increased.
- In almost all countries, **the largest increases in traffic volume** occurred immediately after public policy announcements such as school closures or stay-at-home orders, and this can also be seen as a reflection of changes in internet use. There are still large differences between countries in traffic volume increases: at the bottom end of the spectrum the United States (+20%) and Japan (+31%), and at the top end of the spectrum Italy: using traffic on 18 February, as a baseline, traffic in Italy increased by 109.3% over the roughly one-month period from 20 February to 31 March. But the global increase in traffic volumes had limited impact at top-line given the bundle offer. As most shops were closed (on average 75% closed), there were lower sales of devices. Moreover, still on the negative side, most telco companies, as media industry, recorded lower advertising revenues. On the positive side, sector experienced an increased demand for new services (contents are a strong differentiating factor) and more data which translated into an increased demand for fixed-line and mobile services. **Once the crisis will fade away**, there could be room to monetize new services and increase in traffic volumes, which is likely to stay. Borrowings evolution has to be monitored carefully, with SMEs and shops closed.
- **Revenues** for 1Q 2020-19 declined by -2.6%, EBIT by -5.9% and net profit by -20.4%; the net profit drop is partly due to exchange rate losses. The Ebit margin decreased by -0.6 percentage points, and the net profit margin by -2.1 percentage points. On average, telco companies have confirmed their FY 2019 **dividends** for 2020 as well.

Means of transport: double digit drop in volumes, revenues and margins

- Distinction between **aircraft manufacturers and automotive**: on the former, the impact of COVID-19 pandemic has been even more negative.
- **Aircraft manufacturers:** as the pandemic continues to reduce airline passenger traffic, the sector's companies see significant impact on the demand for new commercial airplanes and services: revenues for 1Q 2020-19 dropped sharply by -22.1%, while both EBIT and net profit turned negative.
- **Automotive:** negative impact on the automotive sector too, leading to the third drop in a row after the poor performance already reported in 2018 and 2019 when global volumes were down 2% and 4% respectively: in 1Q 2020 global demand for cars -23.3%. Europe -26.3%. Italy worst in class in Europe: -35.5% (-85.4% in March 2020)

Car sales in 1Q 2020/2019



- As for automotive sector, revenues for 1Q 2020-19 declined by -9.1%, EBIT by -75.8% and net profit by -92.4%. The Ebit margin decreased by -4.3 p.p., and the net profit margin by -5.0 p.p. Most of companies suspended **dividends** for 2020, reduced or deferred research and development and capital expenditures and reduced CEO and Chairman pay for 2020.
- Although many worldwide car markets should gradually stabilize as the year progresses, it is likely to have a significant decrease in the global car market: the volume of global demand for new vehicles in 2020 is expected to be between 15 and 20% lower than it was the previous year (around -25% in Europe and -10% China). This assumes a very sharp decline in the second quarter followed by a swift recovery in the third quarter of 2020 and a fourth quarter that almost reaches the previous year's figures. COVID-19 epidemic is likely to have a material negative impact on the automotive sector in 2020.

Fashion: a solid sector, but materially impacted by the crisis

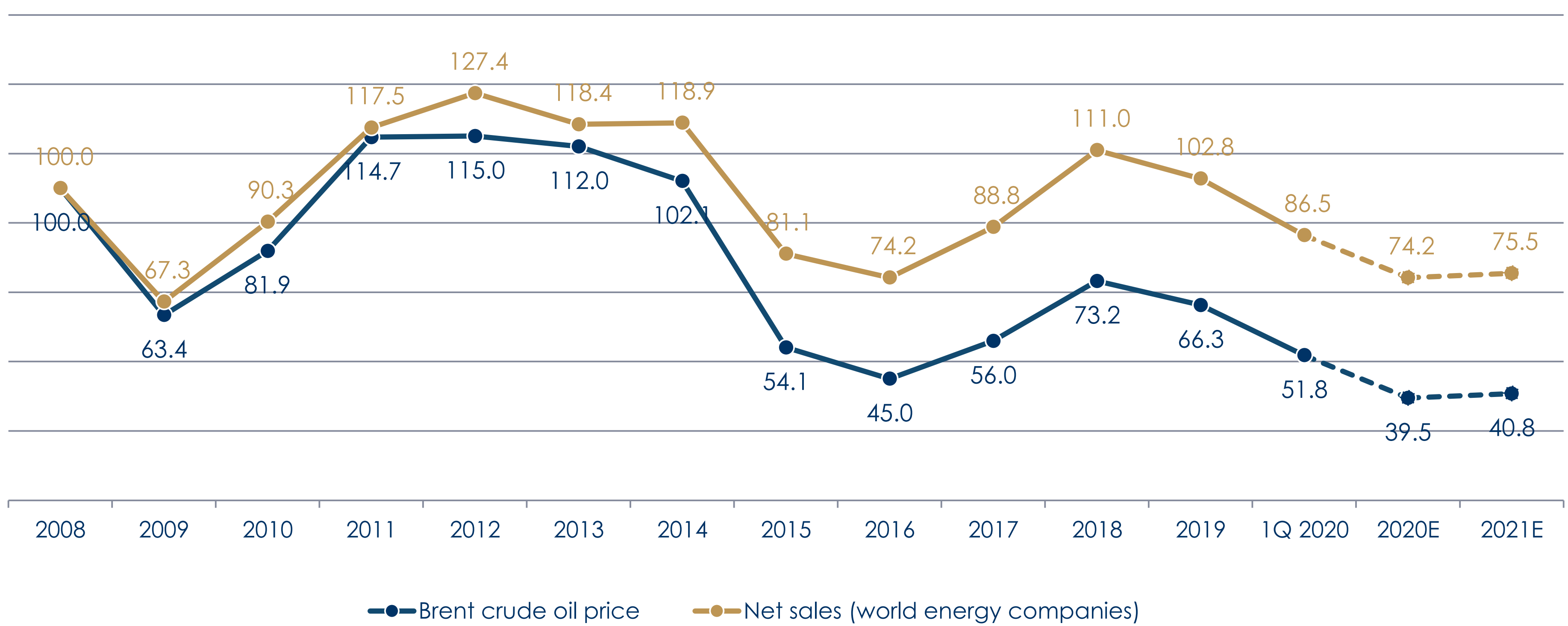
- Regarding **fashion** companies, they have been affected by the closures of a significant portion of stores and production sites, as well as the cancellation or postponement of fashion shows and the suspension of international travels.
- For **supply chains**, more than 40% of global luxury-goods production happens in Italy—and all the Italian factories, including small, family-based façonniers have temporarily shut down in March and April 2020.
- Most of companies delayed or cancelled store renovations and new openings, and consequently registered lower capital expenditure, and prioritized investments in high-return projects, notably in digital.
- **In terms of sectors**, watches&jewellery and apparels appeared less resilient than leather goods and footwear. Eyewear industry appeared more resilient.
- **In terms of channels**, wholesale was generally more negative impacted by lockdown measures than retail.
- Performances by **geographical areas** reflected the different timing of the outbreak, with China store traffic dropped since late January, while Europe and The United States later, as lockdown period started in mid-March.
- **Global revenues** declined by -14.1% in 1Q 2020-19. **Online sales** generally grew at a very high rate (on average roughly +25% in 1Q 2020) and partially mitigated sales fall, even if the e-commerce growth cannot in any way compensate for the revenue loss in the other channels because the share of online business is at less than 10% of sales on average. The majority of online stores saw an accelerating growth in April 2020 (generally by-double-digit growth rates and in some cases even by triple-digit growth rates). China traffic and sales have improved since March 2020, showing early signs of recovery, confirming the "revenge spending" phenomenon.
- Fashion companies' **EBIT** declined by -81.5% and net profit by -92.0% in 1Q 2020-19. The Ebit margin decreased by -10.7 percentage points, and net profit margin decreased by -8.5 percentage points. Most companies registered impairment charges as a result of decreased cash flow projections associated with the COVID-19 pandemic.
- Most of fashion companies suspended **dividends** for 2020 or at least reduced them (by around -30% on average).
- **2020 is and will continue to be a difficult year for fashion companies**. Most of companies expect all markets to recover by the end of the year and 2021 to be a year of growth again. The fashion industry is expected to be in a relative strong position after the crisis, driven by a generalized excellent financial solidity, even if some exceptions are not excluded, especially companies with less liquidity. Capital expenditure was updated to be around -40% on average less than 2019.

OIL&ENERGY: A DROP DRIVEN BY THE OIL PRICES

- Regarding **oil market and energy** companies, the impact of this new situation on oil prices has been deep. The reduction in global oil demand has resulted in oversupplied markets and unprecedented pressure on commodity prices and margins.
- The last time **the price of oil** dived was in 2016, when it plummeted to 43.7 dollars a barrel after years of relative stability. Today, the price of oil is crashing again down from 64.3 dollars a barrel in 2019, due to the negative impact COVID-19: 50.3 dollars a barrel in 1Q 2020, with drops to 33.7 dollars a barrel in March 2020 and to 26.6 dollars a barrel in April 2020. **A new era of stagnant oil prices has begun**, and its political effects may reveal deeper than the economic ones. Lower oil prices (38.3 dollars a barrel in 2020 and 39.6 dollars a barrel in 2021) weight on outlook.
- The significant demand decrease for jet fuel and gasoline impacted results in the 1Q 2020, contributing sharp falls in refining margins.
- **Revenues** for 1Q 2020-19 dropped sharply by -15.9% and EBIT by 87.8%, while net profit turned negative driven by impairments related to inventory valuation impact resulting from lower commodity prices and to reduced market value of goodwill and equity companies. The Ebit margin decreased by 7.1 percentage points, and the net profit margin by -7.8 percentage points. Most of oil&energy companies reduced capital expenditures on average by 25%.
- The pressure on refining margins is going to continue in the next months of 2020. Looking forward, there remains an exceptional level of uncertainty regarding the near-term outlook for prices and product demand. Second quarter production is expected to be lower compared to the first quarter, and more material impacts on refined margins are expected in the second quarter.

Brent crude oil prices and net sales energy companies

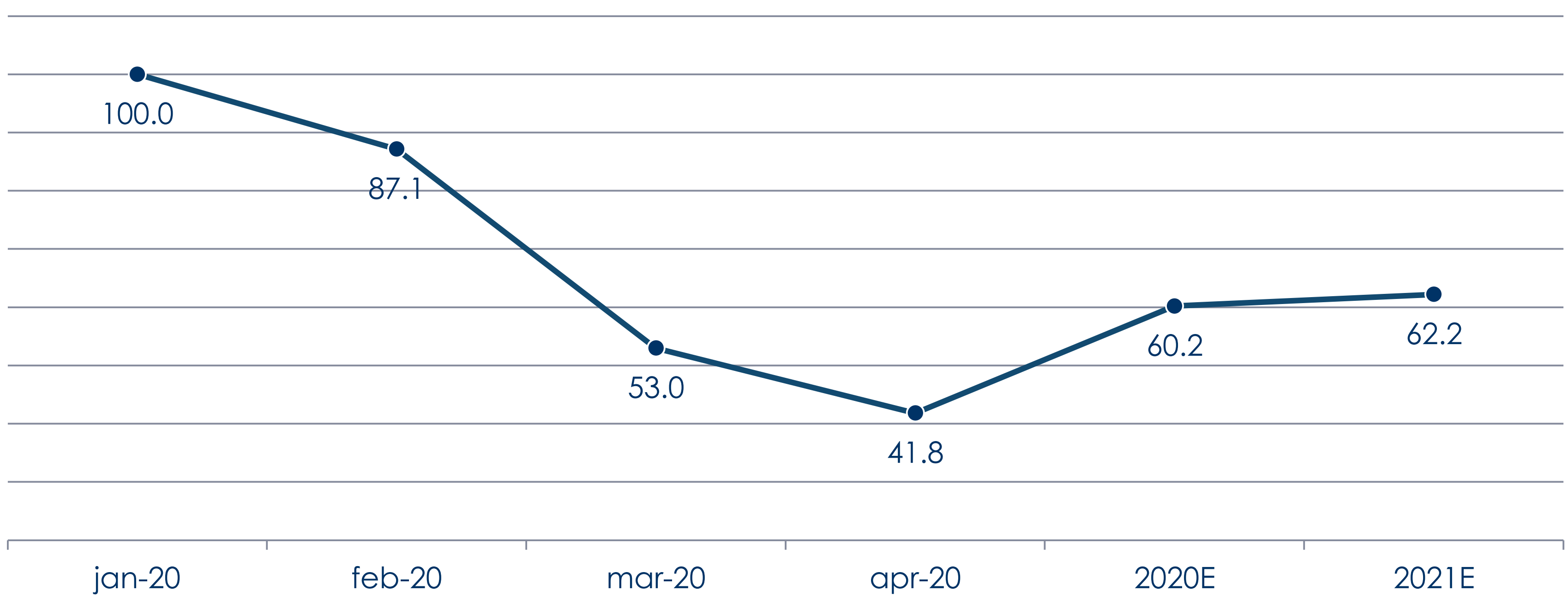
Brent crude oil prices and net sales energy multinational companies – Index number 2008=100,0



Platt's Oilgram data (Brent average annual price)
2020E and 2021E from DEF: *Documento di Economia e Finanza (Ministero dell'Economia e delle Finanze)*, 24 April 2020

Brent crude oil prices in the first four months 2020

Brent crude oil prices – Index number January 2020=100,0



2020E and 2021E from DEF: *Documento di Economia e Finanza (Ministero dell'Economia e delle Finanze)*, 24 April 2020

Thank you!

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