



BRIEFING NOTE

Impacts of COVID-19 pandemic on 1Q 2020 data for large industrial companies

12 May 2020



RICERCHE E STUDI

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1 Abstract

More than four months have passed since China reported the existence of a new virus to the World Health Organization.¹ This virus, now known as SARS-CoV-2, causing the COVID-19 disease ("Coronavirus")² and potentially deadly respiratory tract infections, spread quickly in the city of Wuhan and throughout China, before progressing beyond China's borders. The outbreak was declared a Public Health Emergency of International Concern on 30 January 2020. The World Health Organization declared the pandemic on 11 March 2020.

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.³ Sadly, as of Sunday 10 May 2020, 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.

We do not know how long the COVID-19 pandemic will last, nor what the real economic consequences of it will be, especially in the long run. COVID-19 is having a growing impact on the global economy. It is affecting economic conditions regionally as well as globally, disrupting supply chains and otherwise impacting on operations. Governments in affected countries have imposed travel bans, quarantines and other emergency public safety measures. Companies have been affected by downturns in general economic conditions or uncertainties regarding future economic prospects that are impacting on countries all over the world. The EU economies in particular are suffering a prolonged period of slow growth since the 2009 Global Financial Crisis.⁴ A significant decline in the global economy or in the interconnected economies of each country in the world, or in consumers' confidence, will have a material adverse effect on corporate business worldwide.

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.

This note contains 1Q 2020 data up to 8 May 2020

1 A pneumonia of unknown cause detected in Wuhan was first reported to the World Health Organization Country Office in China on 31 December 2019
2 On 11 February 2020, World Health Organization announced a name for the new COVID-19 disease: COVID-19.
3 In Italy there was on average more than one death every two minutes in March 2020.
4 In addition, uncertainties over future trade arrangements and industrial policies in various countries or regions, such as the United Kingdom following the referendum in 2016 to leave the European Union (Brexit), create additional macroeconomic risk. In the United States, any policy to discourage imports into the United States adversely affects European companies' operations.



In a situation such as this, our thoughts lie first and foremost with those who left us and their families, who are ill and who look after those who are sick, along with the heroes throughout the country who are running huge risks each day by going to work.

*«There are moments in life we choose to remember
and some memories we can never forget»
(The Butterfly Effect, Eric Bress)*



2 Global economic impact

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

- ◆ To supply: with the closure of businesses, and disruption to supply chains;
- ◆ 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;
- ◆ 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;
- ◆ 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;
- ◆ To public finance: lower tax revenues and higher spending, hence increased public debt. The response from the ECB (formerly quantitative easing) is quiet positive, even though the communications have been poor. However, according to Mediobanca Securities, more need to be done.⁵

Many transmission channels to the economy, with a negative impact on the GDP are the following: quarantining, social distancing measures, travel restrictions, cancellation of conferences, sports events etc, fewer tourists staying at hotels and eating at restaurants, negative sentiment impact on consumer spending, negative impact of lower stock prices on consumer spending, tighter financial conditions impacting corporates and households, deteriorating confidence for companies and households, heightened uncertainty for businesses about demand and supply chain disruptions.⁶ All these channels drive a sharp fall in consumer and business spending. Although the pandemic comes under control in most parts of the world by late in Q2, the self-reinforcing dynamics of a recession kick in and prolong the slump until the end of Q3. Consumers stay home and businesses lose revenue, putting significant pressure on the banking and financial system. It will be hard to overcome economic damage in Q3. It takes until Q4 for European and US economies to see a genuine recovery.⁷ But the degree of uncertainty surrounding these projections is very strong. These are truly unprecedented events with no adequate historical example and the evolution of the virus is also highly uncertain. The severe containment measures being taken will succeed in flattening the epidemic curves by midyear in Europe and the United States, and that activity there will begin to bounce-back in Q3 and Q4, supported also by the massive policy responses.⁸

On 23rd March 2020, IMF Managing Director Kristalina Georgieva made the following statement: "the outlook for global growth for 2020 is negative, but we expect recovery in 2021. To get there, it is paramount to prioritize containment and strengthen health systems everywhere. **The global economic impact is and will be severe**, but the faster the virus stops, the quicker and stronger the recovery will be."

5 Italy – Outlook / Strategy, Mediobanca Securities (14 April 2020): "Even if the judgement can only be partial at this stage, we reaffirm the warning that economic damage from COVID-19 may be exacerbated by the complicated governance of the Euro Area, which is reflected in a slow and possibly sub-scaled response especially vs USA, where the speed and the size of the response dwarfs the European agreement obtained after large struggles." "With regard to Italy, the combination of fiscal stimulus measures and a declining GDP are likely to produce a sharp increase in the debt/GDP ratio (we cannot exclude this to go above 150%)"

6 Global Macro Outlook (Deutsche Bank Research) (March 2020)

7 COVID-19 Implications for business (McKinsey & Company) (16 March 2020)

8 Impact of COVID-19 on the global economy Update 2: Severe recession (Deutsche Bank Research) (18 March 2020)



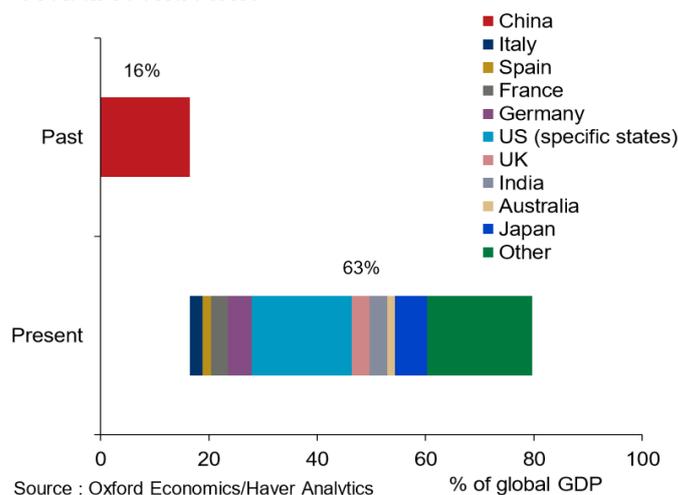
All economic impact and relative forecasts in current scenario have at least two variables linked to the uncertainty: 1. the duration and the speed of the pandemic; and 2. the duration and extent of the lockdown.

According to Oxford Economics,⁹ for instance, if 40% of economic activities are in lockdown for a period of two months (followed by immediate normalization), GDP for the year decreases by 6.7%:

	One week	Two weeks	One month	Two months	Three months
1%	0.0	0.0	0.1	0.2	0.3
3%	0.1	0.1	0.3	0.5	0.8
5%	0.1	0.2	0.4	0.8	1.3
10%	0.2	0.4	0.8	1.7	2.5
20%	0.4	0.8	1.7	3.3	5.0
30%	0.6	1.2	2.5	5.0	7.5
40%	0.8	1.6	3.3	6.7	10.0
50%	1.0	2.0	4.2	8.3	12.5

At beginning April 2020, 65% of worldwide GDP was in lockdown:

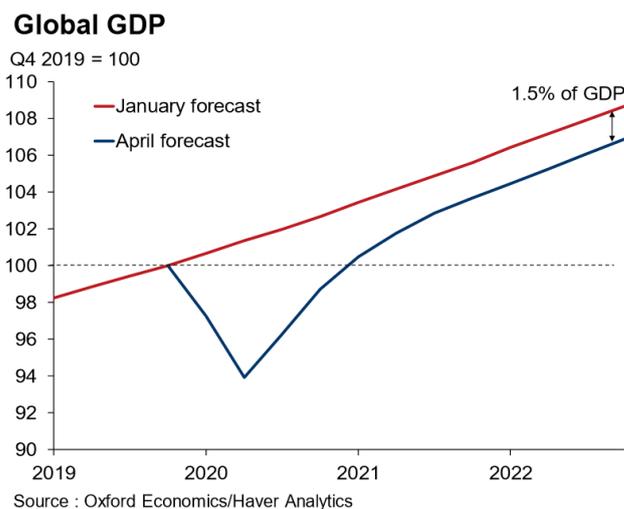
Global lockdowns



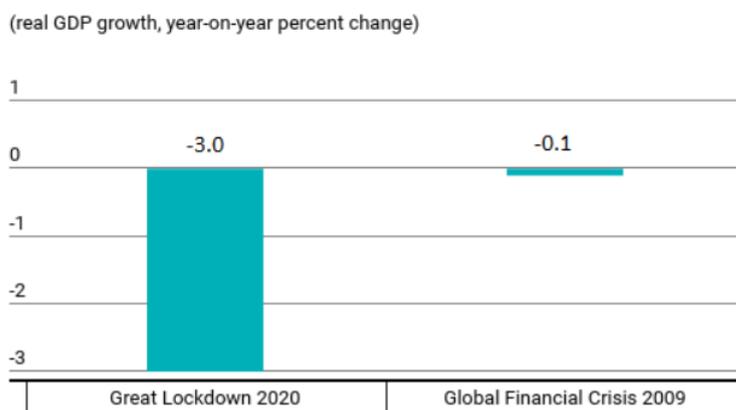
Again according to Oxford Economics,¹⁰ global GDP will decline by 2.8% in 2020, based on the assumption of a bounce-back in 2H 2020 following release of the lockdowns, and Eurozone GDP will decline by 5% in 2020, even more than the drop during the Global Financial Crisis. The level of global GDP recorded in 4Q 2019 should be reached again in 1Q 2021:

⁹ Oxford Economics (26 March 2020 and 10 April 2020)

¹⁰ Oxford Economics (10 April 2020)



On 14 April 2020, [IMF¹¹](#) has declared that the world is facing the worst economic downturn since the Great Depression, and far worse than the Global Financial Crisis: the world has changed dramatically in the last five months: as countries implement necessary quarantines and social distancing practices to contain the pandemic, the world has been put in a great lockdown. 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. Under the assumption 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, IMF projects global growth in 2020 to fall to -3.0%. Assuming that policy actions taken around the world are effective in preventing widespread firm bankruptcies, extended job losses, and system-wide financial strains, IMF projects global growth in 2021 to rebound to 5.8 percent.

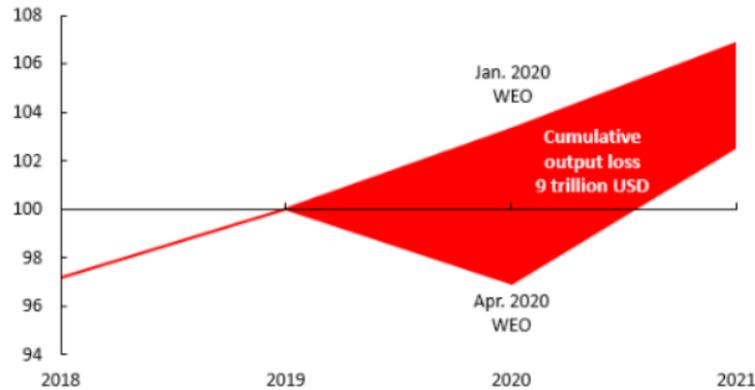


Source: IMF, *World Economic Outlook*.

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:

11 World Economic Outlook (14 April 2020). -0.1% global GDP during the Global Financial Crisis in 2009

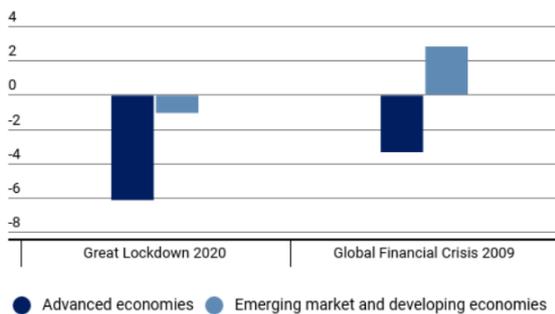
(global real GDP level, index)



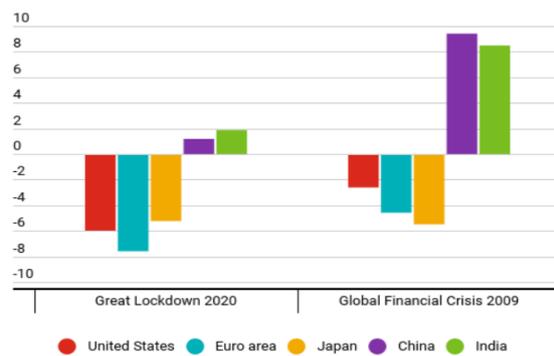
Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

This is a truly global crisis as no country is spared. Countries reliant on tourism, travel, hospitality, and entertainment for their growth are experiencing particularly large disruptions. For the first time since the Great Depression both advanced economies and emerging market and developing economies are in recession. Major economies have also been significantly downgraded. For this year, growth in advanced economies is projected at -6.1%. Emerging market and developing economies with normal growth levels well above advanced economies are also projected to have negative growth rates of -1.0% in 2020, and -2.2% if you exclude China. Both advanced economies and emerging market and developing economies are expected to partially recover in 2021.

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



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



Source: IMF, *World Economic Outlook*.

The COVID-19 pandemic will severely impact growth across all regions in the world in 2020 and 2021 projections:



(real GDP, annual percent change)	2019	2020	2021
World Output	2.9	-3.0	5.8
Advanced Economies	1.7	-6.1	4.5
United States	2.3	-5.9	4.7
Euro Area	1.2	-7.5	4.7
Germany	0.6	-7.0	5.2
France	1.3	-7.2	4.5
Italy	0.3	-9.1	4.8
Spain	2.0	-8.0	4.3
Japan	0.7	-5.2	3.0
United Kingdom	1.4	-6.5	4.0
Canada	1.6	-6.2	4.2
Other Advanced Economies	1.7	-4.6	4.5
Emerging Markets and Developing Economies	3.7	-1.0	6.6
Emerging and Developing Asia	5.5	1.0	8.5
China	6.1	1.2	9.2
India	4.2	1.9	7.4
ASEAN-5	4.8	-0.6	7.8
Emerging and Developing Europe	2.1	-5.2	4.2
Russia	1.3	-5.5	3.5
Latin America and the Caribbean	0.1	-5.2	3.4
Brazil	1.1	-5.3	2.9
Mexico	-0.1	-6.6	3.0
Middle East and Central Asia	1.2	-2.8	4.0
Saudi Arabia	0.3	-2.3	2.9
Sub-Saharan Africa	3.1	-1.6	4.1
Nigeria	2.2	-3.4	2.4
South Africa	0.2	-5.8	4.0
Low-Income Developing Countries	5.1	0.4	5.6

Source: IMF, *World Economic Outlook*, April 2020

For United Kingdom, the Bank of England has forecast that the Coronavirus crisis will push the UK economy into its deepest recession in 300 years, with output slipping 3% in 1Q 2020 followed by a further 25% in the 2Q; this would mean an almost 30% drop overall in the first



half of 2020, the fastest and deepest recession since the “great frost” in 1709. So 2020 is set to be one of the worst in 300 years of UKL economic history.

What IMF has described is a baseline scenario but, given the extreme uncertainty around the duration and intensity of the health crisis, IMF also have explored alternative, more adverse scenarios. The pandemic may not recede in the second half of this year, leading to longer durations of containment, worsening financial conditions, and further breakdowns of global supply chains. In such cases, global GDP would fall even further: an additional 3% in 2020 if the pandemic is more protracted this year, while, if the pandemic continues into 2021, it may fall next year by an additional 8%.

More pessimistic are Fitch Ratings' forecasts¹² relating to world GDP which is expected to contract by 3.9% in 2020, a recession of unprecedented depth in the post-war period. This is twice as severe as the 2009 recession.

More pessimistic are European Commission¹³ forecasts relating to the Euro Area economy which will contract by a record 7.7% in 2020 and grow by 6.3% in 2021.

¹² Fitch Ratings Global Economic Outlook forecasts (22 April 2020)

¹³ European Commission - Spring 2020 Economic Forecast: A deep and uneven recession, an uncertain recovery (6 May 2020)



3 Italian economic impact

In **Italy**, the radical containment measures were announced since late February – schools and shops closure, etc. – first locally and then nationally. Tourism, social consumption (restaurant, theatre, sport events, etc.) and transportation have been hit hard. The retail sector has also been impacted. Other services and manufacturing sectors have been impacted also by the school closures. Note that family support and remote working have alleviated the impact of school closures in Italy. The impact on tourism is likely to prove longer lasting, though.¹⁴

According to Mediobanca Securities, this is A Crisis Like No Other:¹⁵ the spread of COVID-19 has quickly become a global issue that could lead, phrasing IMF, to the worst crisis since the Great Depression. This is mainly a human tragedy and therefore the first priority for all Governments & International Organizations has to be the protection of their citizens while finding a treatment for this dangerous contagion. And only once the virus is controlled, a coordinated effort will be required to finance the gigantic effort on reconstruction.

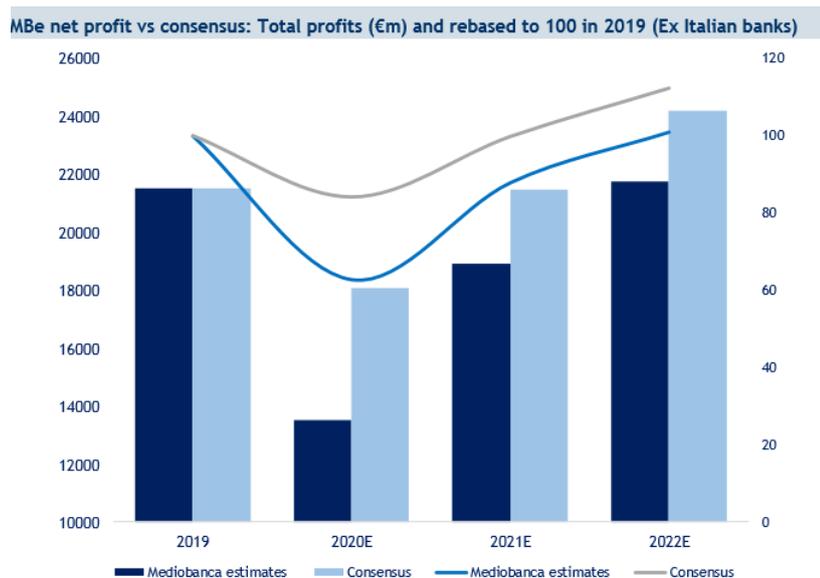
The crisis has shown the limits of Euro-zone's governance to face a Herculean task: in the Euro-zone, the ECB has taken steps in the right direction, including the Pandemic Emergency Purchase Program (PEPP), but the European Union should coordinate a fiscal response to the deep economic crisis that will follow the health emergency.

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.

Unlike latest available consensus, that still seems to anticipate a V-shaped recovery, Mediobanca Securities' estimates indicate a U-shaped one: Mediobanca Securities forecasts a U-shaped recovery. Mediobanca Securities does not believe in a V-shaped recovery assuming deeper and more structural damages from COVID-19 pandemic. 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.

¹⁴ Societe Generale Cross Asset Research/Economics (17 March 2020)

¹⁵ Italy – Outlook / Strategy, Mediobanca Securities (14 April 2020)



Source: Mediobanca Securities, Datastream Reuters

The Italian government decree issued on 22 March 2020 identified the sectors and economic activities considered to be “essential”.¹⁶

According to Istat,¹⁷ these sectors and activities account for 58% of Italian corporate turnover (agricultural companies excluded) which is equal to €1,795bn in net sales (at the opposite end of the spectrum, the other 42% is “suspended” and is equal to net sales of around €1,320bn). This is an average figure, which rises to 63% for services, and falls to 42% for construction companies and 41% for manufacturing industry.¹⁸ The high percentage for services companies is largely due to those sectors which remain totally open (100% turnover): logistics, ITC, finance and assurance, education, and, naturally, health services. In terms of numbers, 52% of the companies operating in Italy remained open, in particular 50% of the small companies, 59% of the medium-sized enterprises, and 66% of the large groups. In other words, the small companies are disproportionately affected.

It is industry that is the source of the most concern. If in services the restrictions on mobility can be overcome by reorganization and increased use of smart working,¹⁹ in manufacturing, if equipment remains at a standstill, so too does economic activity. Of the activities permitted, those involving the production of necessary goods are protected, the food sector in particular but also medicines, medical equipment and hygiene products. Various other activities related to these priorities have also been identified, either to produce them (e.g. agriculture and chemicals) or to distribute them to the general public (e.g. supermarkets and pharmacies). However, companies in other important sectors of Italian national industry are inactive: ranging from iron and steel to automotive, from fashion to household systems, to most mechanical engineering.

Regarding automotive, for instance: car sales in Italy were down 85.4% in March 2020 (compared to March 2019) and down 97.5% in April 2020 (compared to April 2019), which includes performances such as that of FCA (down 90.3% in March 2020 and down 96.3% in April 2020), PSA (down 89.2% in March 2020 and down 96.3% in April 2020), and Volkswagen

¹⁶ DPCM 22 March 2020 and DM Mise 25 March 2020

¹⁷ ISTAT, Memoria scritta, 5a Commissione programmazione economica e bilancio Senato della Repubblica (Tavola 4), 26 March 2020

¹⁸ Manufacturing is part of industry which percentage is higher (52%), because utilities are totally open (100%).

¹⁹ Smart working is more widespread in services and large companies: 20% of large companies has at least one employee in smart working, 11% of services has at least one employee in smart working, under 8% of smaller and medium industrial companies has at least one employee in smart working (elaborazioni Centro Studi Confindustria su dati Indagine sul lavoro del 2019).



(down 84.6% in March 2020 and down 98.8% in April 2020). In Italy, the most sold car in March 2020 was the Fiat Panda.

Again according to Istat, "suspended" labour amounts to 33% of the workforce, equal to 7.8 million workers. Those on permanent contracts, who accordingly enjoy the greatest protections, make up just 30% of the total (2.3 million), while the remainder obviously form part of the more vulnerable categories: those on fixed-term contracts (36% of the total number in this category), self-employed without staff (39%), and self-employed with staff (49%). Thus part of the number on fixed-term contracts depends on the self-employed. Young workers (aged 15-24) have been most affected by the suspensions (50%), more so than the older workers (26% aged 55-64 and 28% over 65 years old).

According to Cerved,²⁰ total net sales by Italian companies in 2019 were equal to €2,411bn, and the forecasts minus COVID-19 were for growth of 1.7% in 2020/2019 and 2.0% in 2021/2020. In a base forecast scenario (i.e.: emergency situation to last until end-May 2020, and two months to return to normality, material impact on world economies and exports, no financial crisis and public spending interventions), Italian companies will lose €220bn in revenues in 2020 compared to the forecast situation pre-COVID-19 (down 7.4% in 2020/2019) and €55bn in 2021 (up 9.6% in 2021/2020). In a pessimistic scenario (i.e.: emergency situation to last until end-December 2020, six months needed to return to normality, lockdown of all European countries, no financial crisis and public spending interventions), Italian companies will lose €470bn revenues in 2020 compared to the forecast situation pre-COVID-19 (down 17.8% in 2020/2019) and €172bn in 2021 (up 17.5% in 2021/2020).

The worst hit sectors will be tourism and transport (net sales: €112bn in 2019), which would lose €32bn in revenues in 2020-2021 in the base scenario, and €73bn in the pessimistic scenario. At the opposite end of the spectrum, the best-performing sectors with double-digit growth in the base scenario are: online commerce (up 26.3% in 2020, vs net sales of €4.3bn in 2019), food distribution (up 12.9%, vs net sales of €108.2bn in 2019), and medical equipment (up 11% in 2020, vs net sales of €6.9bn in 2019). In the pessimistic scenario, the best-performing sectors with double-digit growth are: online commerce (up 55% in 2020, vs net sales of €4.3bn in 2019), food distribution (up 22.9%, vs net sales of €108.2bn in 2019), wholesale pharmaceutical products (up 13.8% in 2020, vs net sales of €33.5bn in 2019), and medical equipment (up 10.2% in 2020, vs net sales of €6.9bn in 2019).

In Lombardy, which posted net sales of €752bn in 2019, the estimate according to the COVID-19 base scenario is for a loss of €80bn in 2020-2021 compared to the pre-COVID-19 trends, and according to the pessimistic scenario for a loss of €182bn in 2020-2021, again compared to the pre-COVID-19 trend.

According to DEF,²¹ Italian GDP will decline by 8% in 2020 and will increase by 4.7% in 2021.

According to Prometeia,²² Italian GDP will decline by 6.5% in 2020, based on the assumption of that the COVID-19 restrictions will be released slowly and selectively as from the start of May. To put this in context, this would be equivalent to the recession of the years 2008-2009 in just one year. In 1H 2020, GDP looks set to decline by over 10% from pre-crisis levels, with very different performances between the various sectors: ranging from a 10% decrease in manufacturing industry to a 27% reduction in tourism services, to a 16% reduction in transport services and entertainment activities. The recovery will be gradual and will start from the Autumn, translating to growth of 3.3% in 2021 and 1.2% in 2022.

20 Cerved Industry Forecasts, L'impatto del COVID-19 sui settori e sul territorio, March 2020

21 Documento di Economia e Finanza (Ministero dell'Economia e delle Finanze), 24 April 2020

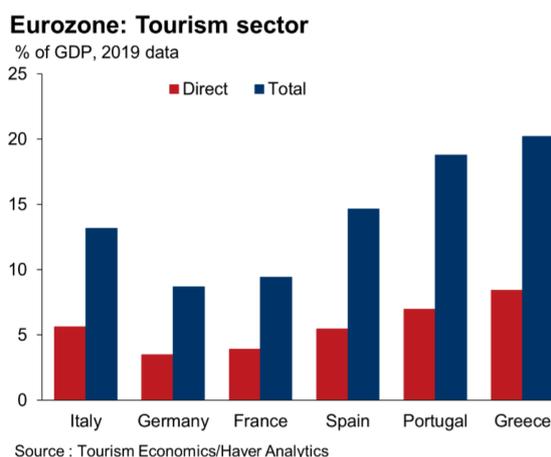
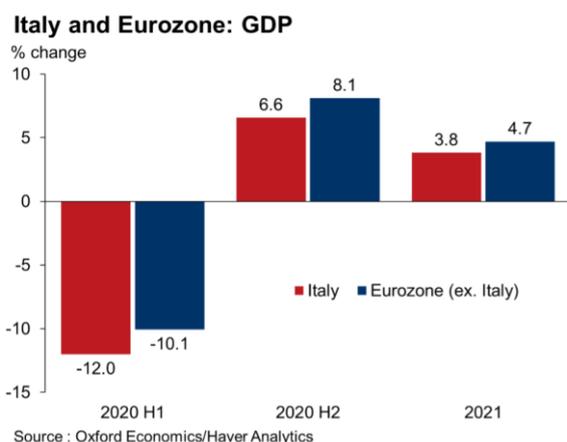
22 Prometeia, 27 March 2020

According to the *Centro Studi Confindustria*,²³ it is likely that Italian GDP in 2020 can be represented graphically by means of a “V” shape: a steep decline by as much as 10% in 1H 2020 (3.5% in 1Q 2020 and 6.5% in 2Q 2020) will be followed by a partial recovery, which should mean that the reduction in GDP for the twelve months of 2020 is 6%. This is based on the assumption that the acute phase of the healthcare crisis will be over by end-May, with 90% of the industrial activities reopening for business by then. Each extra week that production activities remain under lockdown, according to current indicators, could cost at least an additional 0.75% of GDP. The bounce-back should consolidate next year, with GDP growth for the twelve months of 3.5%.

As well as GDP, the *Centro Studi Confindustria* has also analysed other variables. Investments, for example, are estimated to decline by 10.6% in 2020, household consumption by 6.8%, and exports by 5.1%.²⁴ These trends should all be reversed in 2021: investments should rise by 5.1%, household consumption by 3.5%, and exports by 3.6%.

According to *Oxford Economics*,²⁵ Italian GDP will decline by 7.5% in 2020, based on the assumption of that the COVID-19 restrictions will be released slowly and selectively as from the start of May. Indeed, a bounce-back is expected in 2H 2020: in 1H 2020 the Italian GDP will decline by 12%, and by more than 10% in the Eurozone. The recovery will also be less pronounced in Italy than in Eurozone, for four reasons:

1. It was the first European country to be hit violently by the pandemic, and has adopted severer restrictions as a result;
2. 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%;
3. The industrial fabric of Italy mainly consists of small and medium-sized enterprises which again have been the worst hit by the crisis;
4. Italian bureaucracy is renowned for its slowness.

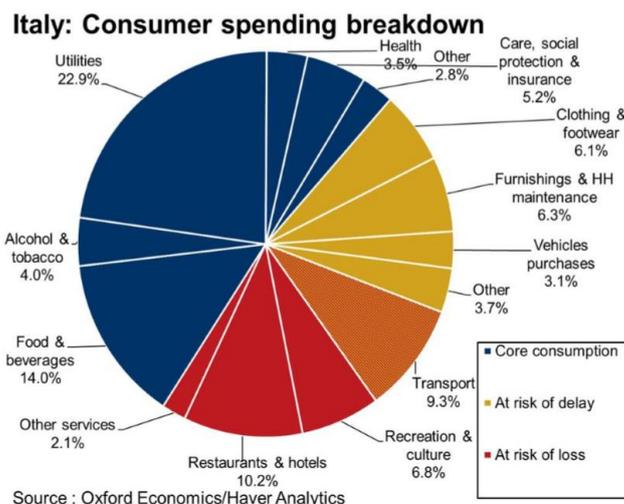


Virtually all components of Italian GDP have been affected by the crisis, first and foremost consumption: something like 45% of demand risks being lost or deferred.

23 Centro Studi Confindustria, "Le previsioni per l'Italia, quali condizioni per la tenuta dell'economia?", Spring 2020.

24 In 2019 Italy was the sixth net exporter of manufactured goods (representing the difference between exports and imports), after China, Germany, South Korea, Japan and Taiwan.

25 Oxford Economics (10 April 2020)



According to [Confcommercio](#),²⁶ Italy will lose in 2020 around €84 bn in consumption, down 8% on 2019. Over three quarters of this loss will be concentrated in the following sectors: clothing and footwear, vehicles purchases, transports, recreation and culture, hotels, bars and restaurants. The latter two, in particular, are the sectors with the heaviest drops: -48.5% for hotels and -33.3% for bars and restaurants.

More pessimistic are [Goldman Sachs' forecasts](#) relating to Italian GDP: according to Goldman Sachs,²⁷ Italy's GDP will fall 11.6% in 2020 due to the Coronavirus crisis, while European GDP will fall 9% in 2020. The forecast for France is a reduction of 7.4%, for Germany of 8.9%, and for Spain of 9.7% in 2020. In terms of the recovery expected in 2H 2020, there will be differences between the countries in Europe: quicker in Northern Europe (particularly in Germany and the United Kingdom), and slower in Southern Europe countries (particularly Italy and Spain). The reason is the scale of the policy response: the Northern European countries have been able to put in place much greater fiscal support measures in place than the Southern European ones.

COVID-19 will have material impacts on the national labour market: according to IMF, Italian **unemployment rate** will increase from 10% to 12.7% in 2020 (greater than the 11.6% foreseen by the DEF) and will decline to 10.5% (11% for the DEF) in 2021. The Eurozone average is expected to be 10.4% in 2020 and 8.9% in 2021. In Spain the unemployment rate will rise to 20.8% and in Greece 22.3%. Germany will presumably remain below 4%. According to European Commission, the unemployment rate in the Euro Area is forecast to rise from 7.5% in 2019 to 9.5% in 2020 before declining again to 8.5% in 2021.²⁸

According to data published by [Confcommercio](#),²⁹ 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. Even when considering that restaurants are allowed to offer delivery services, businesses in this sector lost 68.4% in March 2020. Other indicators include the drop in demand for cars (-85.4%), air transports (-81%), hotels (-75%) and sales of clothing and footwear (-67.4%) for operators not having an online platform, with the latter being cancelled out completely in most of the country's regions. Some sectors recorded a growth, especially: food&drinks (people ate more at home, with the demand accentuated by stocking patterns)

26 Ufficio Studi Confcommercio, 30 April 2020

27 Goldman Sachs, Europe's Response to the Economic Downturn (9 April 2020)

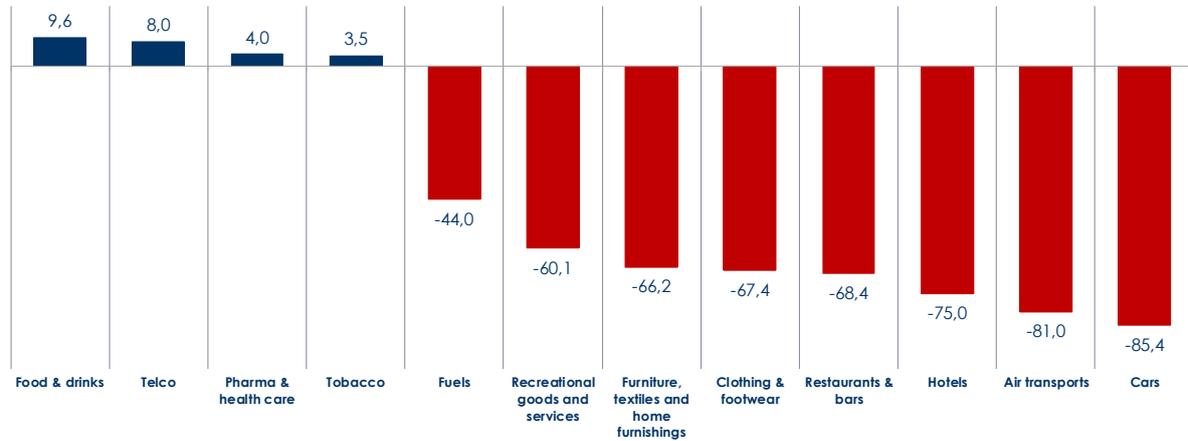
28 European Commission - Spring 2020 Economic Forecast: A deep and uneven recession, an uncertain recovery (6 May 2020)

29 *Congiuntura Confcommercio*, 14 April 2020



and telco (internet is the only way for smart working and keep in touch with friends, colleagues and relatives).

Consumption, March 2020/March 2019, percentage change (Confcommercio)



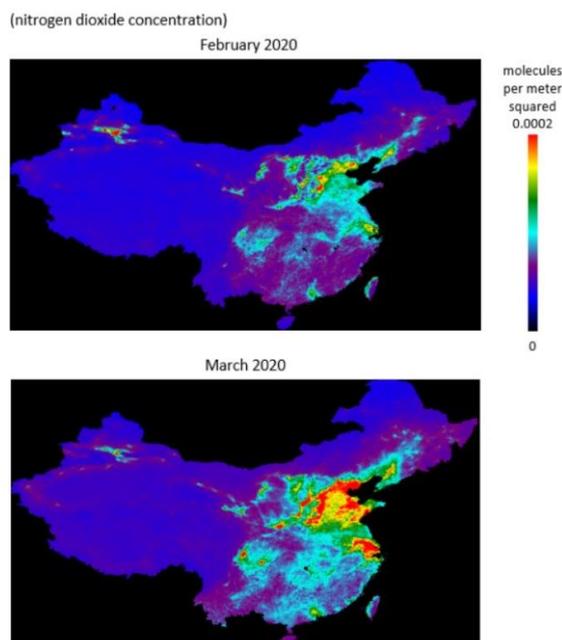
4 Data relating to 1Q 2020: large industrial companies worldwide

Large industrial companies worldwide are taking action to “navigate the now,” planning for the recovery, and shaping the future. 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.

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 United States. The March figures provided a better reflection of the COVID-19 pandemic worldwide. The bulk of the economic impact should be felt in 2Q. This impact cannot be precisely evaluated at this stage without knowing the timetable for a return to normal business in the different areas in the world.

A positive piece of news is that many companies reopened their stores and production sites in China starting from mid-March 2020, after having been closed for at least one month because of COVID-19 pandemic in the country: the environment in China is gradually improving, although not yet back to normal. 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 activity. Satellite data show recent increases in nitrogen dioxide concentration³⁰ over China in March, suggesting a pick-up in industrial and transport activity compared to the previous month (source: European Space Agency).



³⁰ Nitrogen dioxide concentration in the atmosphere 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.



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. Entrepreneurs believe that Chinese consumers will be keen to start buying again, in what is known as “revenge spending”.³¹ 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, qualified as “a global pandemic” by the World Health Organization, accompanied by the prevailing uncertainties related to further development in terms of impact on public health and, consequently, 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 for the full year 2020 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 revenues, EBIT and EPS estimates as the result of the store and factory closures in most regions related to COVID-19; capex will be generally lowered. CEOs generally consider 2H 2020 as a semester of stabilization to see a gradual recovery starting from 4Q and a rebound hopefully in 2021. For European and American companies, both top- and bottom-line declines in the second quarter of 2020 are expected to be more pronounced than those recorded in the first quarter.

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.

31 A phrase that refers to pent-up demand for goods after crises.



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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

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



For **WebSoft** companies, 1Q 2020 results were positively impacted by the COVID-19 pandemic, with the sector being driven by cloud services, subscriptions and e-commerce (partially offset by travel online sales) related to lockdown measures. Users' search activity increased too, and consumers' interests generally shifted to less commercial topics.

WebSoft companies' 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%,³² 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%).

WebSoft companies' 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.³³ For e-commerce channel, shipping costs, which include sortation and delivery centers and transportation 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 17% in 2020.

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;³⁴ the result was both a sharp increase in revenue and profit followed by ramp-up in spending to protect and benefit colleagues and customers. 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);³⁵ para-pharmaceutical products' sales increased too, driven by a strong demand for personal protective, hygiene and other healthcare equipments (hand sanitizers, face masks etc.). 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; furthermore, in several countries, authorities closed down certain non-food departments. 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.

32 According to Fabio Pavan, Mediobanca Securities, the Italian cloud market is expecting to grow at least at a 20% pace in the coming years, even boosted by the recent smart-working usage increase, due to the Covid-19 crisis. Cloud adoption is mainstream and the growth will speed up in the near future, also in the light of the ongoing emergency and above all when considering cloud penetration in Italy stands at 9% (vs European average at 18%). Google Cloud and TI have already started marketing their new offer.

33 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.

34 In Italy: +57% food e-commerce demand in the third week of February, +81% in the last week of February and +97% in the second week of March. An unsatisfied demand of equal size is estimated.

35 In Italy, revenues increased since 17-23 week in February: +8.7% in supermarkets, +8.6% in ypermarkets and +8.3% in discounts (Nielsen). Demand for packaged, long-life products' sales registered a double-digit increase in second week of March compared to the previous week: +15.4% in value on the previous week and +30% on that of last year: the turnover exceeded that of the Christmas holiday week (Ismea, COVID emergency report - 19 March 2020)



Most of store formats and e-commerce benefited from this very sustained momentum in food. The lockdown measures implemented favored proximity and supermarkets, which are closer to home and more accessible, at the expense of hypermarkets; though the deceleration in sales on hypermarkets was happening already in the pre COVID-19. 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: employee protection in stores and warehouses, and customer protection and adaptation of service to meet costumers' specific needs (protective measures in stores, accelerated deployment of automated check-out supermarkets). Capacity uplift for home delivery, click & collect and e-commerce solutions have been strengthened, allowing to handle very strong customer demand. Secured logistic organisation, in cooperation with suppliers, to meet demand has been strengthened too. Accordingly, 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%.

For **pharma** companies, 1Q 2020 results were positively impacted 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 could lead to a material impact on pharmaceutical companies' sales if successful. On 1 May 2020 the American Food and Drug Administration has given emergency use authorization to the antiviral drug Remdesivir (produced by Gilead Sciences)³⁶ to treat hospitalized patients with the Coronavirus. The news has come days after preliminary results from a study of the drug showed it can help patients recover faster. The authorization means Remdesivir can be distributed in the U.S. and given intravenously to treat COVID-19 patients. Remdesivir is used to treat advanced cases, in which people are already hospitalized. These recent positive findings are a starting point in the fight against the respiratory disease.

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

³⁶ 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.



offset by fewer ATM transactions, especially high-margin European cross-border 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.

Electronic payments companies' 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.

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 related to communications and computing and decelerated by around +2% increase in sales of electronic devices connected with store closures, despite favorable conditions in strong server/PC demand related to the "stay at home" and smart working trend. 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.

Regarding **food&drinks** companies, the effect of COVID-19 pandemic 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:



1. Geographies: slight net sales growth in this sector worldwide (+2% for 1Q 2020-19) has been supported mainly by North America and Europe markets which saw significantly increased growth in March, partially supported by consumer stockpiling in the first weeks of lockdown. Asia markets posted generally negative growth, mainly due to sales decline in China, due to government restrictions in place for almost the full first quarter, limited consumer stockpiling and relatively higher exposure to out-of-home channels.
2. Product categories: essential products saw a general increased demand, as well as prepared dishes and cooking aids, coffee and medical nutrition products.
3. Sales channels: out-of-home³⁷ channels posted negative growth, in-home channels posted positive growth and e-commerce sales grew with sharp increasing investments.

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 logistic constraints. Most of companies have reduced and reallocated marketing expenses and have kept on continuously assessing effectiveness under the current environment. Consumer communication has been adapted to support activities that help on-trade customers and reflect social distancing.

Global revenues for food&drinks companies in 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. However for food&drinks companies, it is helpful to introduce a distinction between manufacturers of food products and drinks: the impact of the COVID-19 pandemic has been lower on the former than on the latter. Revenues for food companies in 1Q 2020-19 increased by +3.4%, EBIT decreased by -3.4%, and net profit by -17.3%. The Ebit margin decreased by -0.9 percentage points, and the net profit margin by -1.5 percentage points. Revenues for drinks companies in 1Q 2020-19 decreased by -0.1%, EBIT decreased by -10.1%, while net profit increased by +0.4%. The Ebit margin decreased by -2.2 percentage points, while the net profit margin increased by +0.1 percentage points.

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 **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 (such as the professional soccer, hockey, baseball and basketball leagues and the Olympics), 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.

Media & Entertainment companies' 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

37 Horeca channel: Hotellerie-Restaurant-Café



declined by -0.5%, of which theme parks -29%, advertising revenues -3%,³⁸ 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.

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.³⁹ 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.

Telco companies' 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.

For **means of transport** companies, it is helpful to introduce a distinction between manufacturers of aircraft and ground vehicles (mostly automotive): the impact of the COVID-19 pandemic has been heavier on the former than on the latter.

COVID-19 pandemic has created unprecedented shock in demand for air travel with near-term market contraction due to decreased traffic and travel restrictions. 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, with airlines companies delaying purchases for new jets, slowing delivery schedules and deferring elective maintenance. Regarding aircrafts manufacturers, revenues for 1Q 2020-19 dropped sharply by -22.1%, while both EBIT and net profit turned negative (-3.8% and -4% respectively). The Ebit margin decreased by -11.6 percentage points, and the net profit margin by -10.0 percentage points.

³⁸ In Italy a double-digit drop for advertising market was recorded and TV audience was up by +30% in March 2020 TV usage increased by one hour on average Mobile and PC streaming increased by 75%. All the TV channels increased TV series, movies and doubled entertainment programs for kids in the morning and in the first half of the afternoon (Fabio Pavan, Mediobanca Securities).

³⁹ Fastly Inc. analysis. In Italy one month after lockdown measures started to be implemented, a 30% average increase in mobile traffic volumes is reported, with fixed-line ones almost doubled. In 1Q 2020 Telecom Italia also recorded a 300% increase in the video-conference tools usage and other smart working apps.



The crisis had a material 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: the development of the global car market was strongly affected by the COVID-19 pandemic in the first quarter 2020. The significant market decline that had already been observed in China since January continued in nearly all regions as the quarter progressed: demand and supply disrupted from March in Europe and the United States. Global demand for cars was significantly lower in the first quarter than in the prior-year period, with a decrease of 23.3%. The Chinese market was already massively impacted by the crisis in February with a slump in demand of approximately 80%. Although the decrease in March was not quite as drastic, the global market still suffered a sharp decline of about 45% for the quarter as a whole. With a certain time lag, the crisis also affected the European and American markets. Major European sales markets were experienced significant double-digit market contraction in March 2020. Italy was the hardest hit: car sales in Italy were down 35.5% in 1Q 2020 and 85.4% in March 2020. As a result, the European market recorded a sharp decline over the quarter as a whole: 26.3% in 1Q 2020. The five largest European markets have contracted by between 20% and 36%: Italy -35.5%, France -34.1%, Germany -20.3%, Spain and United Kingdom -31%. There was a comparatively smaller decline in Central and Eastern Europe, Middle East, Africa and in North and South America; demand for cars and light trucks in the United States showed a market contraction of about 13% for the quarter as a whole.

Regarding automotive companies, 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 percentage points, and the net profit margin by -5.0 percentage points. Most of means of transport 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 European market is likely to contract, with a significant decline in demand anticipated in Western Europe. This will probably affect all major individual markets, each with significant decreases. A significant decline in demand is expected in the United States market too. Among the major markets, China is likely to be the first to reach a moderate recovery path. However, it will probably not be able to fully set the massive losses in the first quarter, so significant market contraction is expected for the year as a whole. In all, 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.

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 (strong decline in fashion revenues are due to reduction in travel). The COVID-19 pandemic had a material negative impact on the financial performance in the 1Q 2020, initially in China and subsequently in European and North American markets during March 2020; Latin America recorded a general sales growth, as negative effects from pandemic weighed on business only later. Fashion brands over-exposed to China and Chinese customers have been more impacted in January and February 2020 after benefiting from strong momentum in January thanks to the Chinese New Year; at the opposite end of the spectrum, companies with a limited exposure to China recorded less decreases in sales in January and February 2020.



For supply chains, more than 40% of global luxury-goods production happens in Italy—and all the Italian factories, including small, family-based *façonnières* have temporarily shut down in March and April 2020.⁴⁰ With pride in their artisanal model, fashion companies pay tribute to the extraordinary tool that is the human hand, as well as to the ingenuity that drives every one of their high quality products, especially if made in Italy.

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 in this unprecedented context 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.

COVID-19 pandemic resulted in a decline in global fashion revenues by -14.1% in 1Q 2020-19, strongly affected by the closures of a significant portion of stores and production sites in all the geographical areas and traffic declines globally.⁴¹ Online performance continued to be strong, and the channel appeared highly resilient during market lockdowns despite logistics issues. 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. Teams in fashion industry mobilized to foster digital sales during 1Q 2020 and 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). Asian (especially China) traffic and sales have improved since March 2020, showing early signs of encouraging and steady recovery, with the first stores opening again. For some fashion companies, the fully operational store network in China and South Korea reported even a double-digit growth in April 2020, confirming the “revenge spending” phenomenon; in Hong Kong and Macau the recovery is slower, as the business there is more related to tourism. In Europe stores and production sites generally and gradually re-opened at the end-April and early May with maximum safety conditions for employees following the suspension of activity.

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. In the first quarter 2020, most companies registered impairment charges to indefinite-lived brand intangible assets and to other assets, including the lease assets recorded in connection with the adoption of the new lease accounting standard IFRS 16. All these charges were primarily a result of decreased cash flow projections associated with the COVID-19 pandemic. In addition, most companies registered charges related to an increase of inventories (inventory growth of +20% on average), reflecting the unexpected cessation of wholesale shipping and store closures. Most of companies recorded restructuring costs in the quarter comprised of costs related to the strategic reorganisation, and expenses related to cost reduction initiatives.

⁴⁰ Suppliers located in Italy can reach highs of 90%, emphasizing the role that “made in Italy” has in the fashion industry, second-to-none at the top end of the range in particular.

⁴¹ For Italian fashion companies, Camera Nazionale della Moda Italiana (Fashion Economic Trends, 6 May 2020) forecasts: +15% revenues in 1Q 2020 and around -30% in 2Q 2020. SMI-Centro Studi Confindustria Moda (11 May 2020) forecasts: -25% the average drop in revenues in 1Q 2020, and -20% exports in 1Q 2020



Given the current context of the COVID-19 pandemic and its impact on economic activity, most of BoDs decided to reduce the fixed and variable portion of their annual remuneration for 2020. In addition most of fashion companies suspended dividends for 2020 or at least reduced them (by around -30% on average).

In terms of outlook, 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.

At the beginning of April 2020, BCG has published a report to forecast the impact of COVID-19 outbreak on the personal luxury goods sector, based on surveys to CEOs and CFOs of major sector companies. As a result, it expects the sector turnover to decline by -30% or -€100 bn compared a market which was worth €350 bn in 2019. Most of surveyed managers believe that the pre-crisis levels cannot be reached until 2022. The sector EBITDA is seen down 30% or €30 bn less, but in a worst case scenario the drop would be much bigger (€56-58 bn). As a consequence the increase in inventories might be up, which might put companies' liquidity under pressure.

At the beginning of May, Altagamma published 2020 consensus on Luxury Goods consumption. According to the analysis hard luxury and apparels will be hit the worst by COVID-19 crisis. In terms of product category, the expected declines at constant currency are the following: apparels -21% (vs prev. +3.5%), leather goods -16% (vs prev. +6%), footwear -17% (vs. prev. +5%), jewellery -22% (vs prev. +5%), watches -25% (vs prev. +2.5%), and beauty -11% (vs prev. +5%). In terms of distribution channels, the pandemic is forecasted to affect consumers behaviour, with physical retail and wholesale declining by -21% and -29% at constant currency. Online should benefit from the consumer preference shift towards digital, with retail and wholesale e-commerce at +16% and +12% respectively. By geography, the worst-hit area should be Europe -29%, followed by North America -22%, Latin America -21%, Middle east -16%, and the Rest of World -18% (all at constant currency). Asia Pacific area is expected to experience a more limited fall with Japan down -13% and the rest of Asia at -5%.

Regarding **oil market and energy** companies, the impact of this new situation on oil prices has been deep: although temporary production cuts can offer some short-term relief to oil producers, it can hardly solve the global demand crunch. The reduction in global oil demand (notably for reduced mobility caused by severe travel restrictions) 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 2020,⁴² exacerbating the situation for the oil exporting economies. 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)⁴³ weight on outlook.

The significant demand decrease for jet fuel and gasoline impacted results in the 1Q 2020, contributing sharp falls in refining margins.

⁴² Platt's Oilgram data (Brent average annual price)

⁴³ 2020E and 2021E from DEF: *Documento di Economia e Finanza (Ministero dell'Economia e delle Finanze)*, 24 April 2020



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.