



THE WORLD'S 25 LEADING SOFTWARE AND INTERNET COMPANIES BEFORE AND AFTER THE PANDEMIC

COVID-19 HAS NOT SLOWED THE GROWTH OF THE SOFTWARE AND INTERNET GIANTS. WITH IMPRESSIVE RESILIENCE, IN FIVE YEARS THESE COMPANIES HAVE MORE THAN DOUBLED THEIR AGGREGATE TURNOVER WHICH GREW EVEN DURING THE MONTHS OF THE MEDICAL EMERGENCY. AMAZON IS THE WORLD LEADER BY REVENUES AND WORKFORCE

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The Mediobanca Research Area analyses the financial statements of the **world's 25 largest software and internet companies** over the 2015-19 five-year period, and the impact of the Covid-19 pandemic on their results for 1H 2020. Of the companies surveyed, 13 operate primarily in internet retailing (e-commerce, entertainment services, online travel and sharing mobility), 7 in software production, and 5 in internet services (social media, search engines, web portals etc.). Of the 25 companies, 14 are headquartered in the United States, 6 in China, 3 in Japan and 2 in Europe (Germany).

In 2015-19 the software and internet companies more than doubled their aggregate turnover, outperforming the manufacturing multinationals. They also increased their profits, workforce and market capitalization. The Covid-19 pandemic did not halt their growth in 1H 2020 in terms of revenues or profits, either, both of which were higher than those recorded in 1H 2019.

The presentation is available for download from www.mbres.it.

The general picture pre-Covid

In 2019 the **aggregate turnover** of the world's 25 largest software and internet companies reached €1,014bn, accounting for 8% of the combined total sales of the world's largest industrial multinationals. Their top-line growth continues unabated, more than 10 times faster than the large manufacturing companies (up 118.3% in 2015-19, compared with 10% by the manufacturing multinationals). The market is increasingly concentrated: the top three players, **Amazon, Alphabet and Microsoft**, account for around one-half of the aggregate software and internet revenues. Amazon alone, which has ranked first since 2014 and has a top line of €249.7bn, accounts for one-quarter. The gap between the top and the last five operators has increased over the period: in 2015 the difference in total revenues was just over €285bn, but by 2019 it had more than doubled to exceed €595bn.

Profits also soared to reach €146bn in 2019 (15.6% of the global industrial multinationals) having grown at an annual average rate of 24.1% in 2015-19 (the equivalent rate for large manufacturing is 0.6%). In 2019 each of the software and internet giants produced on average €16m in profits per day (compared with €7m in 2015), making a total of €480bn in profits accumulated in 2015-19. However, the results in terms of **industrial margins** were rather less impressive: in 2019 the Ebit margin was 16.3%, compared with 10.9% for large manufacturing, but 1.6 pp lower than in 2015 nonetheless.

At year-end 2019 the software and internet companies' **workforce** totalled 2.2 million people, one million more than in 2015 (up 90.6%, far higher than the 3.8% growth reported by large manufacturing industry). Of these Amazon alone posted growth in its headcount of 567,000, and remains undisputed leader in terms of employment, with a workforce of 798,000 at year-end 2019. Much of the growth in employment levels was due to acquisitions of smaller



companies. Overall, the software and internet giants employ 7.1% of the industrial multinationals' workforce. Meanwhile, the annual average increase versus 2015 in terms of **market capitalization** was 20.1%. As at year-end 2019 the colossuses in this sector were worth more than eight times the whole of the Italian stock market and almost three times the German stock market.

The 25 software and internet ended 2019 with **cash** of €520bn, roughly one-third of their total assets (as opposed to one-tenth in the case of the large manufacturing companies).

1H 2020 and the effects of Covid-19

How has the software and internet market changed as a result of the Covid-19 pandemic? While large manufacturing industry was reporting an 11% reduction in turnover in 1H 2020, the giants of this sector recorded a growth spurt, with **total sales** 17% higher than during the same period in 2019. The crisis brought on by Covid-19 affected the top lines of the software and internet companies differently: revenues soared in **e-commerce** (up 31.3% in 1H 2020 compared with 1H 2019), **fintech** (up 26.1%), **subscriptions** (up 24.6%), and **provision of cloud services** (up 22.2%). Conversely there was a reduction in revenues generated from **mobility sharing** (down 22.6%) and **online travel sales and accommodation bookings** (which plummeted by 50.8%).

There was no slowdown in the growth of **profits** (which were up 16.6% on 1H 2019), with a record of €18m in net profits earned per day, on average almost four times higher than the manufacturing multinationals (which earned daily net profits of €5m). **Liquidity** also rose in the first six months of 2020, at an average rate of €11bn per month to reach €589bn at end-June 2020. Some of these funds (€325bn, or 18% of total assets), is invested in short-term securities, far higher than the average figure for a manufacturing multinational (3%).

Sector rankings in 1H 2020

If we look at the rankings by individual group, the highest growth in revenues for 1H 2020 was reported by **Nintendo** (up 71.5%), **Amazon** (up 33.5%), and **Salesforce** (up 29.5%), followed by three Chinese companies, namely **Alibaba** (up 28.6%), **JD.com** (up 28%), and **Tencent** (up 27.9%). Conversely, reductions were reported by **Uber** (down 7.7%), **Expedia** (down 51.8%) and **Booking** (down 56.4%). At end-June 2020, **Nintendo**, with no borrowings whatsoever, stood out for its capital **solidity** as well as its revenues, followed by Meituan Dianping, Alphabet and Facebook. In general terms, the solidity of the sector giants at aggregate level was largely unchanged, despite a 13.8% increase in borrowings in the first six months of the year. The same applies also if we look at the data for **liquidity**, where Japanese colossus Nintendo once again leads the way, with cash and liquid assets representing 63.6% of its total assets at end-June 2020, ahead of Baidu, Booking and Microsoft.

As far as regards **industrial margins**, in the first six months of 2020 Oracle ranked first by Ebit margin (39.4%), followed by Nintendo (36.4%) and Microsoft (36.1%). Facebook lost first position from 2019, falling to fourth place (32.6%).

What about tax?

Roughly half of the pre-tax profit earned by the software and internet companies is taxed in countries with beneficial tax regimes, allowing cumulative savings on tax of over €46bn in 2015-19. The effective tax rate paid by these companies is 16.4%, way below the notional level of 22.2%. In 2015-19, the preferential regimes generated savings on tax for Microsoft, Alphabet and Facebook of €14.2bn, €11.6bn and €7.5bn respectively.



The software and internet companies in Italy

In Italy the software and internet multinationals operate via subsidiaries, the majority of which are based in the Milan and Monza-Brianza provinces. Aggregate sales reported by the Italian subsidiaries in 2019 totalled €3.3bn (0.3% of the total revenues posted by software and internet companies); the same subsidiaries employed over 11,000 staff (0.5% of the software and internet total). Compared to 2018 there were over a thousand more staff employed, mostly at companies forming part of the Amazon group which has the highest workforce in Italy (at around 6,000 employees). As for tax paid in Italy, in 2019 the software and internet giants paid the revenue authority almost €70m in tax,¹ at an effective tax rate of 32.1%.

Software/internet and the stock market, a winning partnership

The software and internet giants are all listed, with the exception of the German group Otto, which is family-owned. In 9M 2020 these companies' aggregate market capitalization increased by 30.4%, compared with a 6% reduction by the manufacturing multinationals. As at end-September 2020 the top three places in terms of market capitalization were occupied by **Microsoft** (€1,357bn), **Amazon** (€1,345bn) and **Alphabet** (€852bn). As far as regards stock market performances, in 9M 2020 triple-digit growth was recorded by **Meituan Dianping** (up 128.8%) and **JD.com** (up 110.9%); while reductions were reported only by Automatic Data Processing (down 21.7%), Booking Holdings (down 20.3%), Expedia (down 18.8%) and Baidu (down 4.1%).

CSR, sustainability and inclusion

Reports on environmental, social and economic sustainability issues are very widespread among software and internet companies. These show that in 73% cases these companies reduced their greenhouse gas emissions per employee in 2018-19, by an average of 5.9%. In 2019 some 68.4% of the companies use electricity mostly from renewable sources.

Women represent 37.7% of the software and internet companies' workforces; this falls to 30.1% for leadership positions, and to 25.8% for technology and digital roles. In the United States one-half of these companies' workforces is white, with white people occupying 61.9% of leadership positions. The majority of the technology positions are occupied by persons of Asian origin (52%).

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1) This does not include taxes paid by the Italian branches of Luxembourg-based Amazon Web Services EMEA Sarl and Amazon EU Sarl (Amazon group) in a total amount of €73m.