



**THE WORLD'S LEADING SOFTWARE AND INTERNET COMPANIES
IN 1H 2021: GROWTH ACROSS ALL GEOGRAPHIES AND SECTORS
WORLD BEATERS BY REVENUES AND PROFITABILITY EVEN IN THE PANDEMIC
AMAZON THE WORLD LEADER IN TERMS OF REVENUES AND HEADCOUNT
ITALIAN BRANCHES: REVENUES OF €4.6BN, AND HEADCOUNT OF 13,000 STAFF**

Milan, 20 October 2021

The Mediobanca Research Area has today presented its annual report on the **world's largest software and internet companies** in the 2018-20 three-year period and 1H 2021, with a focus on these companies' Italian branches.

The presentation is available for download from www.areastudimediobanca.com.

Growth by internet and software companies continues to accelerate in 1H 2021

In 1H 2021 the **aggregate turnover** of the world's leading companies reflected double-digit growth of 31.1% versus 1H 2020, consistent across all geographies, with Asia & the Pacific, Latin America and Europe reporting 37% increases and North America, already well covered by the internet and software giants, reporting growth of 28%. The relaxation of social distancing measures and changes in consumer habits have impacted positively on all sectors in which these companies operate: in particular, revenues from food delivery increased by 85.6%, from advertising by 48.2%, from online travel sales by 43.7%, and from fintech by 43.6%.

Growth at the **operating profit** level has not slowed either (with Ebit up 49.6% on 1H 2020), and **net profits** have soared, up 80.2%, with nearly €27m in net profit earned per day, almost three times the figure recorded in 2018.

The first six months of 2021 also saw an increase in **cash and liquid assets**, at an average growth rate of €5.5bn per month, reaching €639bn at end-June 2021 (6% higher than at end-December 2020). A chunk of these resources (€346bn, or 16% of total assets) is invested in short-term securities, almost four times the amount invested in such assets by the manufacturing multinationals (4.5%). Another chunk has been used to finance growth, both organic (with capex rising by 33% in 1H 2021-20) and acquisitions, in the form of M&A deals (with goodwill up 15%).

At the individual group level, revenues generated by some of the young Asian pretenders have soared in 2021, in particular Meituan (a company which operates primarily in food delivery, which posted revenues up 94.8%) and Coupang (e-commerce, revenues up 72.8%), both of which were incorporated in 2010, ahead of Facebook (which by now has almost come of age) which saw its revenues increase by 51.7%. These three were followed by Alphabet (up 47.5%), Vipshop (up 35.2%), and Amazon (up 34.8%); only SAP saw its top line decrease (down 1.9%). In terms of industrial profitability, Facebook led the rankings by Ebit margin in the first six months of 2021, with 43.0%, ahead of Microsoft (41.1%) and Oracle (40.5%). At end-June 2021, Nintendo led the way in terms of financial solidity (having no debt), followed by Facebook (net equity 11.5x debt) and Chinese-based Vipshop (9.1x).



Internet and software companies during the pandemic

In 2020 the **aggregate turnover** of the world's top 25 internet and software companies, each of which with total sales of above €9bn, reached €1,153bn, equal to 70% of the 2020 gross domestic product of Italy alone. The United States and China shared the vast majority of these revenues: 65% of the income produced by the internet and software companies came from the US giants, 27% from the Chinese groups, and just 8% from companies based in other countries. The pandemic has further accentuated the gap in terms of growth rate between the internet and software groups and the large manufacturing companies: whereas the former have accelerated (revenues up 45.5% in 2018-20), the latter have slowed (down 4.1%). The market is increasingly concentrated: the top three players, **Amazon, Alphabet and Microsoft**, account for half of the aggregate software and internet revenues in 2020, and Amazon alone (€314.6bn), which has ranked first since 2014, represents more than one-quarter.

The internet and software groups also stand out by **industrial profitability**. With an Ebit margin of 16.1% in 2020, they rank second only to the pharmaceutical multinationals (19.6%) and ahead of the telecommunications giants (14.8%). Focusing exclusively on the digital side of operations, however (i.e. excluding e-commerce), their Ebit margin climbs to 25.8%, far and away the best performance of any industrial sector.

At year-end 2020 the software and internet companies' **workforce** numbered three million people, a million more than in 2018, 650,000 of which were at Amazon alone, which remains undisputed leader in terms of employment with a workforce of 1,298,000 at year-end 2020.

The internet/software companies' relationship with the tax man

In 2020 roughly 40% of the pre-tax profit earned by the 25 software and internet multinationals was taxed in countries with beneficial tax regimes, allowing cumulative tax savings of €10.7bn in 2020 alone and of €24.5bn in 2018-20. The average tax rate was 12.8% in 2020, below the notional average rate of 22.4%. In 2018-20, being taxed in countries with beneficial tax regimes generated total savings for Tencent, Microsoft and Alphabet of €7.7bn, €5.4bn and €4.5bn respectively.

The internet/software companies in Italy

The internet and software cover the Italian market through subsidiaries which are mostly located in the Milan and Monza-Brianza provinces. The aggregate turnover posted by these Italian subsidiaries in 2020 totalled €4.6bn, and their headcount numbers over 13,000 employees. This means almost 3,000 more staff have been employed since 2019, the majority by the Amazon group which has the highest number of employees in Italy (8,193 in 2020). And what does the Italian tax man have to say about these companies? In 2020 the Italian internet and software subsidiaries paid almost €80m in tax, which translates to an effective tax rate of 31.4%. If the provisions for payment of the Digital Service Tax are included, the tax rate would climb to 40%.

The internet/software companies and the stock market

The internet and software giants are all listed with the exception of German group Otto, which is family-owned. Their stock market value rose by 87.8% in 2018-20 and has risen further by 20.7% since end-December 2020 until 15 October 2021. At end-2020 the aggregate market capitalization of these companies was almost ten times that of the whole Italian stock market. As at 15 October 2021, the top three-ranking companies in terms of market cap were **Microsoft** (€1,969bn), **Amazon** (€1,488bn), and **Alphabet** (€733bn).



Diversity and inclusion

Reports on social inclusion topics are very common among internet and software companies. These reports show that women make up 38.2% of these companies' workforces, which declines to 28.9% for leadership positions and to 24.5% for technology and digital roles. In the United States roughly half the workforce is white, rising to 64.5% in leadership positions, while one encouraging figure is the 38.6% of technology roles occupied by people of Asian provenance.