



GROWTH BY THE WORLD'S LEADING WEBSOFT COMPANIES HAS SLOWN IN 2022

FOLLOWING AN OUTSTANDING 2021, 9M 2022 RESULTS REFLECT GROWTH IN REVENUES ONLY BY GEOGRAPHY THE NORTH AMERICAN MARKET IS RESILIENT, WHILE LATIN AMERICA IS SOARING

AMAZON THE WORLD LEADER BY REVENUES AND HEADCOUNT

ITALIAN SUBSIDIARIES: €8.3BN IN REVENUES AND 23,000 EMPLOYEES

Milan, 30 November 2022

The **Mediobanca Research Area** has today presented its annual report on the **world's largest software and web companies**. The survey analyses the data for 9M 2022 and the 2019-21 three-year period of the **world's 25 largest WebSoft companies**, each with annual revenues of over €12bn. Eleven of these companies are based in the United States, nine in China, two each in Germany and Japan, and one in South Korea. The survey also includes a focus on these companies' Italian subsidiaries.

The full survey is available for download from www.areastudimediobanca.com.

WebSoft giants back down to earth in 9M 2022

In the nine months from January to September 2022, the results of the world's leading WebSoft operators reflect growth only in terms of aggregate revenues, which were up **9.5%** on 9M 2021. Even this result shows geographical differences: the North American market, with revenues up 13.7%, was more resilient than Europe and Asia, where the top-line growth was single-digit only (revenues up 8.2% and 6.6% respectively), while Latin America delivered a strong performance (revenues up 24.9%) albeit still at low levels (these companies generate just 1.5% of the aggregate turnover). The return to normality is reflected in the fact that the strongest growth was posted by the segments most impacted by the pandemic: mobility sharing (revenues up 111.6% YoY) and online travel (total sales up 55.5%). Conversely, the increase in turnover was much lower in those segments that had benefited most from changes in consumer habits: food delivery (up 27.0%), cloud services (up 21.3%), and e-commerce (up 3.8%). The segments that account for the highest proportions of the aggregate revenues are e-commerce (37%), advertising (25%), and cloud services (19%).

In the same period, **operating profit shrank** (EBIT was down 5.5% on 9M 2021) and **net profit plummeted** by 42.0%, with each company producing on average a daily net profit of €16m, compared to €27m in 2021.

Liquidity also fell, by 11.9%, but is still high, representing 23.4% of total assets at end-September 2022 (compared with 28.0% at end-December 2021, and much higher than the 14.4% recorded by large-scale manufacturing). This reduction reflects the increase in investments for organic growth (up 20% on 9M 2021) and M&A deals (goodwill up 15%), but also actions to prop up stock market prices (share buybacks were up 12%).

Looking at the data by individual group, in 9M soaring revenue growth was recorded by **Uber** (up 99.3%), **Booking** (up 63.5%) and **Expedia** (up 43.2%), all of the United States, followed quite a long way behind by Korean group **Coupang** (up 14.4%) and **Rakuten** of Japan (up 13.7%). Conversely, double-digit reductions were reported by **Activision Blizzard** (revenues down 21.8%), **Qurate** (down 14.1%), **Vipshop** (down 13.9%), and **Wayfair** (down 12.8%). At the operating profitability level, **Microsoft** led the way in 9M 2022, with an Ebit margin of 41.2%, ahead of **Adobe** (35.1%), **Oracle** (33.4%) and **Nintendo** (33.0%).



2021: the last swansong?

In 2021, the **aggregate turnover** of the world's top 25 WebSoft companies reached **€1,584bn, equal to 90% of Italian GDP**. Against a backdrop of forces that have been consolidated for some time now, the **United States and China** shared the vast majority of these revenues: 67% of the income produced by the WebSoft companies came from the US giants, 28% from the Chinese groups, and just 5% from companies based in other countries. The pandemic has further accentuated the gap in terms of growth rate between the WebSoft groups and the large manufacturing companies: whereas the former have accelerated (revenues up 50% in 2019-21), the latter have grown only by 7.6%. The **turnover is also increasingly concentrated**: the top three players, **Amazon, Alphabet** and **Microsoft**, account for half of the aggregate revenues, and **Amazon** alone (total sales of €414.8bn, 50.9% of which generated by retail), which has ranked first since 2014, represents more than one-quarter.

The WebSoft groups continue to stand out by **industrial profitability**. With an Ebit margin of 15.8% in 2021 they rank third by sector after the pharmaceutical multinationals (24.1%) and the telecommunications giants (15.9%). Focusing exclusively on the digital side of operations, however (i.e. excluding e-commerce), their Ebit margin climbs to 25.8%, far higher than that of any other industrial sector.

At year-end 2021 the WebSoft companies' **workforce** numbered almost four million people, more than a million more than in 2019, 810,000 of which at Amazon alone, which remains undisputed leader in terms of employment with a workforce of 1,608,000 at year-end 2021.

The WebSoft companies' relationship with the tax man

In 2021 roughly 30% of the pre-tax profit earned by the world's largest 25 WebSoft multinationals was taxed in **countries with beneficial tax regimes**, allowing cumulative **tax savings of €12.4bn in 2021 alone and of €36.3bn in 2019-21**. The average tax rate was **15.4%** in 2021, below the notional average rate of 21.9%.¹ In 2019-21, being taxed in countries with beneficial tax regimes generated total savings for **Tencent, Microsoft** and **Alphabet** of €13.4bn, €6.9bn and €5.2bn respectively.

The Italian subsidiaries

The WebSoft groups cover the Italian market through subsidiaries which are mostly located in the North of the country, in and around Milan and its province in particular. The aggregate turnover posted by these Italian subsidiaries totalled **€8.3bn in 2021, employing some 23,000 workers**. This means over 4,000 more staff have been employed since 2020, the majority by the Amazon group which has the highest number of employees in Italy (11,911 in 2021). What does the Italian tax man have to say about these companies? In 2021 the Italian WebSoft subsidiaries paid almost €150m in tax, which translates to an effective tax rate of 25.1%. If the provisions for payment of the Digital Service Tax are included, the tax rate would climb to 33.5%.

Stock market prices plummeted in 2022

After years when WebSoft companies enjoyed a close relationship, with the all-time high in terms of market capitalization reached in December 2021 (€8,628bn), 2022 saw the first-ever significant reduction in stock market price for these companies, **down 29.2% as at 18 November 2022**. At end-2021 the aggregate market capitalization of the 25 companies was equal to 8.3% of the **total value of global stock markets**, but now the figure is just **6.6%**. Compared with Italy,

¹ Weighted average of aggregate. Notional tax rates: United States 21%, China 25%, Germany 15%, and Japan 31%.



however, the WebSoft companies have confirmed their status as heavyweights: **their combined market capitalization is ten times that of the entire Italian stock market.**

As at 18 November 2022, the top three-ranking companies in terms of market cap were **Microsoft** (€1,735bn), **Alphabet** (€1,219bn), and **Amazon** (€927bn); while Chinese group **Tencent** picked up the wooden spoon (€340bn). In the months from end-December 2021 to mid-November 2022, only five groups recorded particularly good stock market performances: **Pinduoduo** (up 32.1%), **Vipshop** (up 22.3%), **Activision Blizzard** (up 22.2%), **IBM** (up 21.2%), and **ADP** (up 14.0%).