Benchmark IFRS 16 on Euro Stoxx 50

What are the impacts on the presentation of Net debt and Cost of debt ?

Treasury & Cash Management

April 2020

MAZARS

FIRST APPLICATION OF THE NEW STANDARD FOR LEASE CONTRACTS (IFRS 16) IN FY 2019

Key facts on IFRS 16

- IFRS 16 was **mandatorily applied** for the **first time in FY 2019.**
- The new standard provides a **single accounting model for lessees.**
- Under IFRS 16, **all leases are recognized on the balance sheet** (except for short-term leases and leases of low-value assets). Therefore the standard eliminates the former dual model in IAS 17 that required to distinguish on-balance-sheet financial leases and off-balance-sheet operating leases.
- The aim of IFRS 16 is to **improve comparability** between companies that lease assets and corporates that borrow to buy assets.

IFRS 16 impacts virtually all commonly used financial ratios and performance metrics

IFRS 16 modifications may also impact loan covenants, credit ratings and borrowing costs, and may result in other behavioral changes

The objective of this publication is to analyze the impact of IFRS 16 on the presentation of Net debt and Cost of debt in the FY 2019 financial statements of Euro Stoxx 50 companies

SCOPE OF THE BENCHMARK

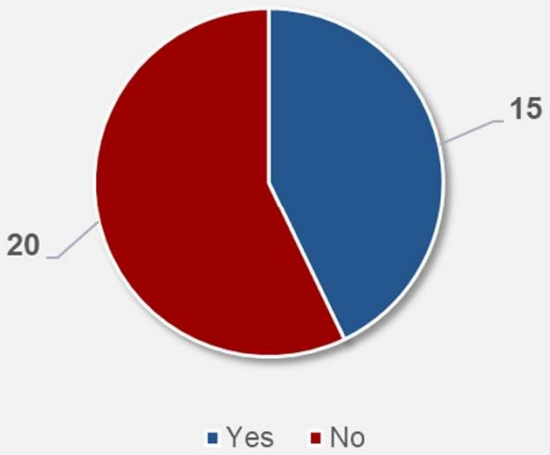
35 CORPORATES FROM EURO STOXX 50

adidas
vivendi
ENGIE
NOKIA
SIEMENS
Ahold Delhaize
CRH
eni
orange
Telefónica
AIRBUS
DAIMLER
DANONE
PHILIPS
TOTAL
AB InBev
Deutsche Telekom
FRESENIUS
SAFRAN
Deutsche Post
Volkswagen
AIR LIQUIDE
amadeus
SANOFI
Unilever
BASF
DEUTSCHE BÖRSE CLOUD EXCHANGE
L'ORÉAL
SAP
VINCI
BAYER
KERING
LVMH
MOËT HENNESSY . LOUIS VUITTON
Schneider Electric
BMW

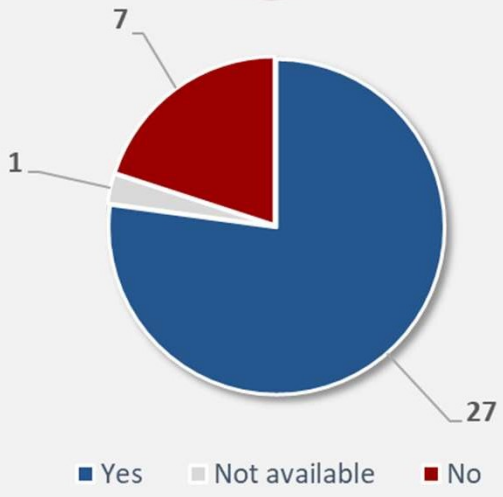
FY 2019 IFRS consolidated financial statements

PRESENTATION OF IFRS 16 LEASE LIABILITIES

Are IFRS 16 lease liabilities presented separately from financial liabilities on the Balance Sheet ?



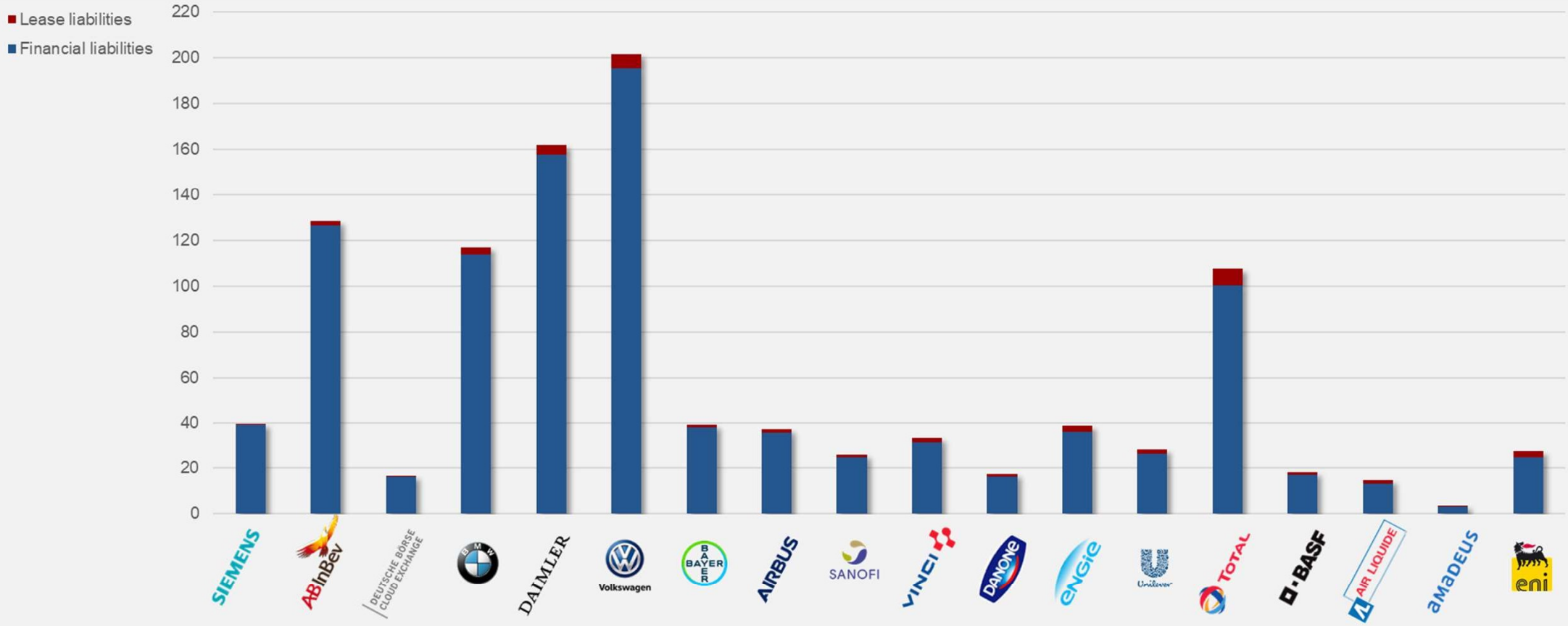
Are IFRS 16 leases liabilities included in Net debt ?



Key take away

- **43% of companies present IFRS 16 lease labilities on a specific line on the Balance Sheet (separately from financial liabilities)**
- **20% of companies do not include IFRS 16 lease liabilities in Net debt**

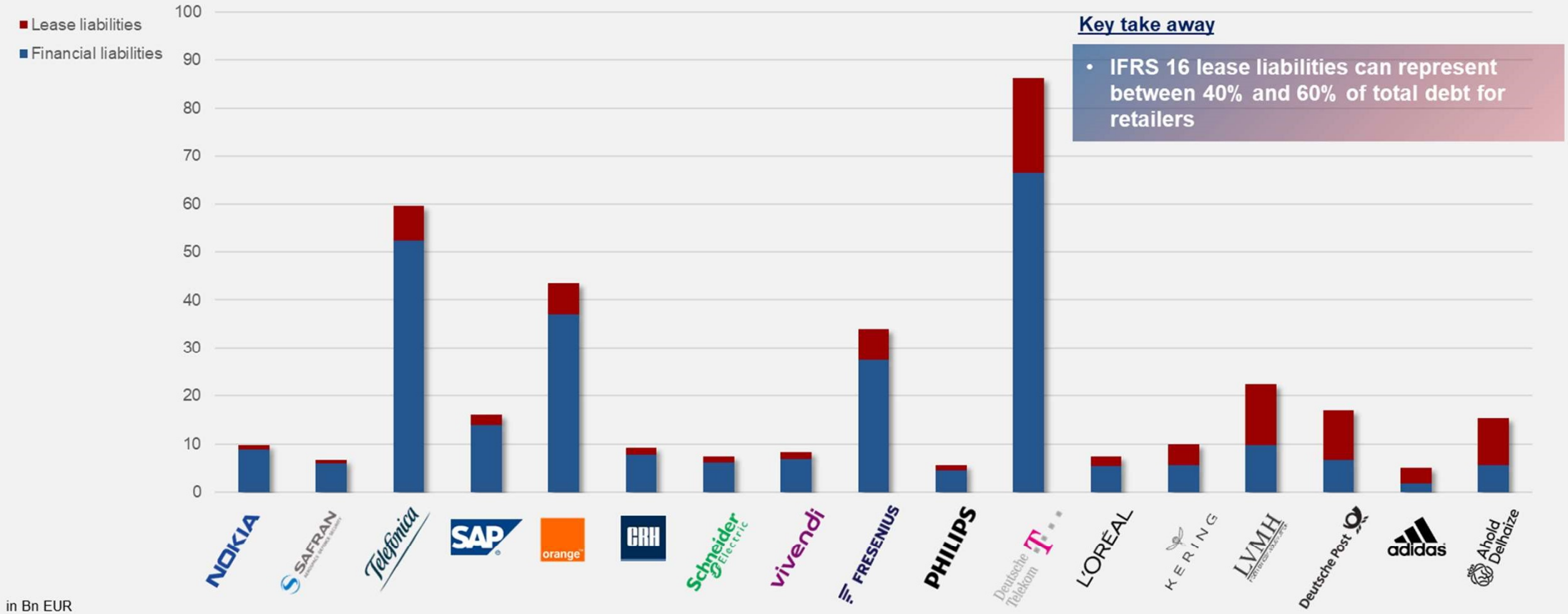
IFRS 16 LEASE LIABILITIES VS FINANCIAL LIABILITIES



in Bn EUR

IFRS 16 lease liabilities	0,1	1,8	0,4	2,9	4,2	6,2	1,3	1,6	1,2	1,8	1,0	2,5	1,9	7,5	1,4	1,3	0,3	2,7
Financial liabilities	39,3	114,3	16,9	116,7	161,8	201,5	39,1	37,2	25,9	33,3	17,4	38,5	28,3	107,7	18,4	14,7	3,6	27,6
Ratio	0,3%	1,6%	2,3%	2,5%	2,6%	3,1%	3,2%	4,2%	4,8%	5,4%	5,6%	6,5%	6,8%	6,9%	7,7%	9,0%	9,5%	9,6%

IFRS 16 LEASE LIABILITIES VS FINANCIAL LIABILITIES



Key take away

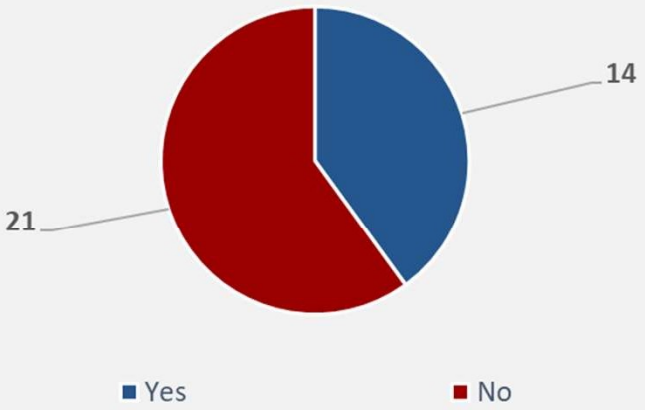
- **IFRS 16 lease liabilities can represent between 40% and 60% of total debt for retailers**

in Bn EUR

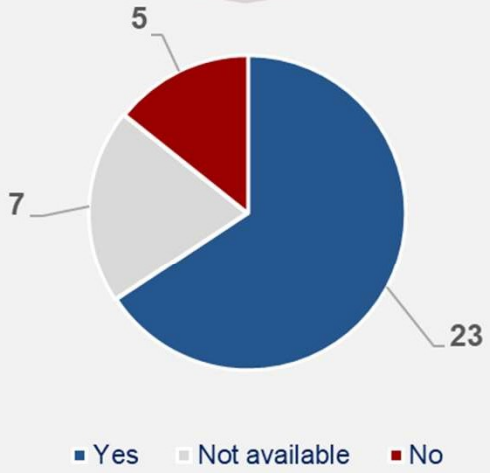
IFRS 16 lease liabilities	1,0	0,7	7,2	2,2	6,5	1,5	1,2	1,5	6,4	1,1	19,8	2,0	4,3	12,5	10,3	3,1	9,7
Financial liabilities	9,9	6,8	59,6	16,2	43,6	9,3	7,4	8,4	33,9	5,6	86,2	7,5	10,0	22,3	17,0	5,1	15,4
Ratio	10,4%	10,8%	12,1%	13,6%	14,9%	16,3%	16,8%	17,4%	19,0%	20,1%	23,0%	27,0%	43,3%	56,2%	60,7%	61,4%	62,8%

PRESENTATION OF IFRS 16 LEASE EXPENSES

Are IFRS 16 lease expenses reported in a dedicated line in the notes to financial statements ?



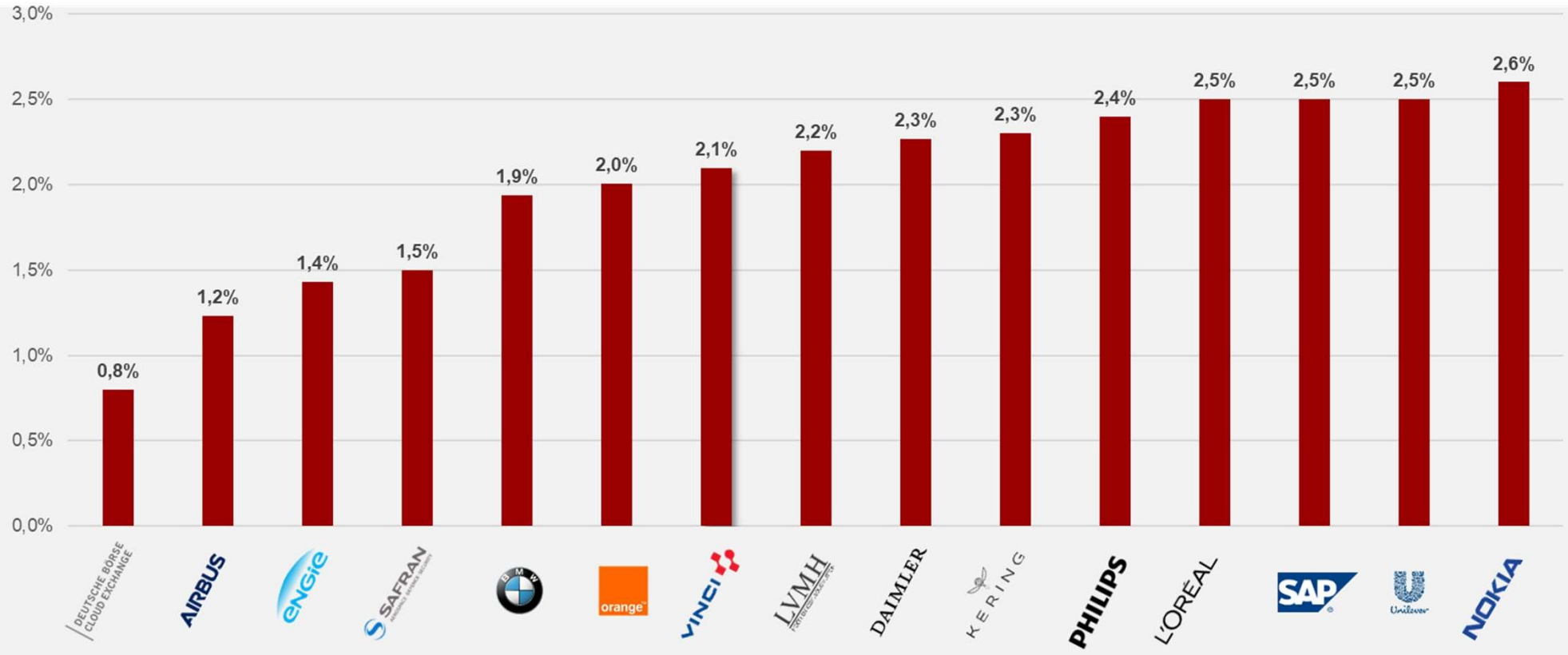
Are IFRS 16 lease expenses included in the cost of net debt ?



Key take away

- **40% of companies report IFRS 16 lease expenses in a dedicated line in the notes to financial statements**
- **66% of companies explicitly include IFRS 16 lease expenses in the cost of net debt**

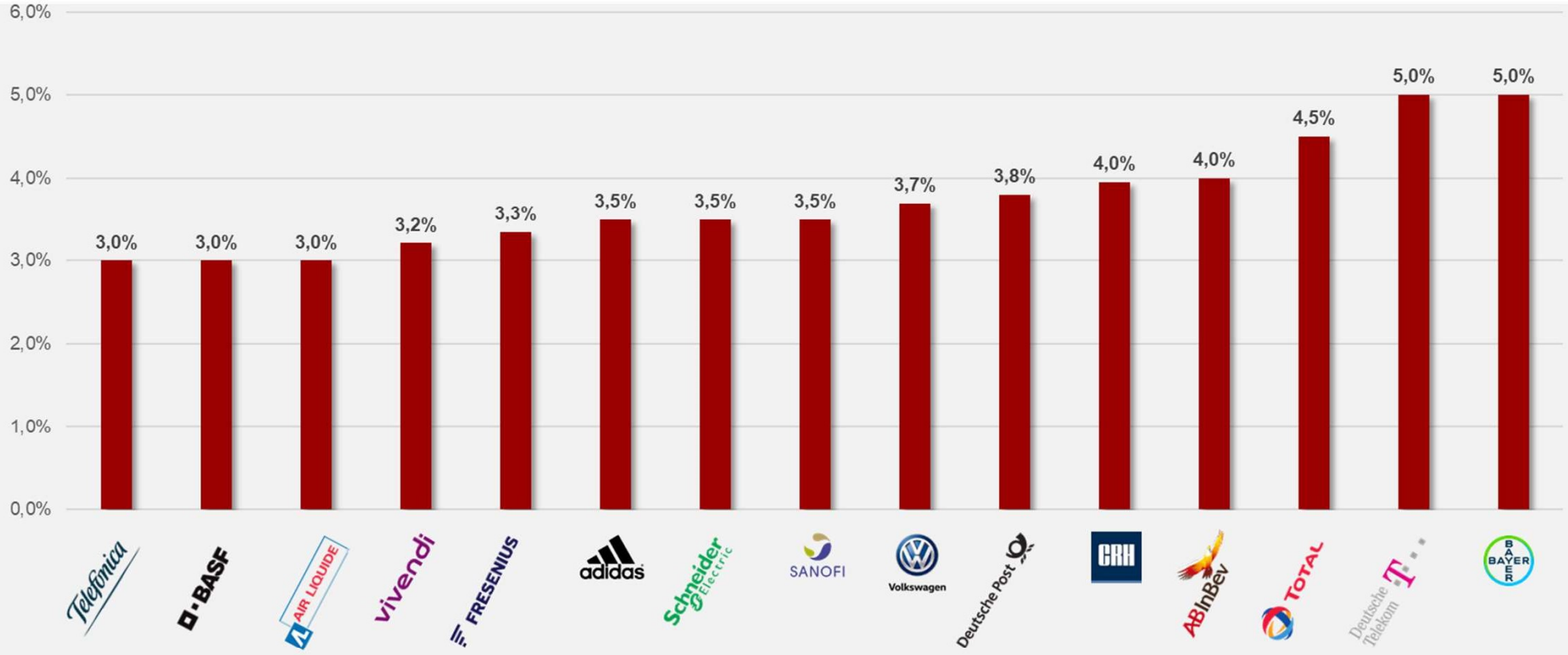
MARGINAL BORROWING RATE USED TO CALCULATE IFRS 16 LEASE LIABILITIES



Focus on IFRS 16

- IFRS 16 states that lease payments shall be discounted using the **interest rate implicit in the lease**, if that rate can be readily determined, or the **lessee's incremental borrowing rate**, if not.
- A lessee's incremental borrowing rate must reflect the interest rate on a loan with both a similar maturity to the lease and a similar payment profile to the lease payments.

MARGINAL BORROWING RATE USED TO CALCULATE IFRS 16 LEASE LIABILITIES

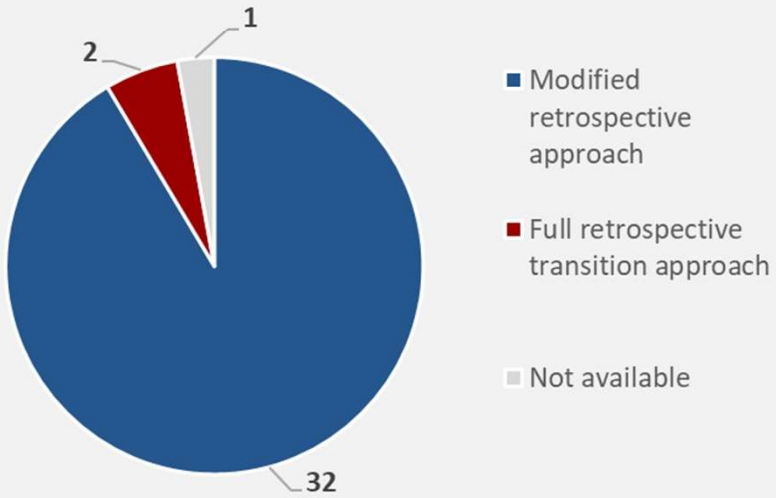


Key take away

- **86% of companies disclosed their marginal borrowing rate used to calculate IFRS 16 liabilities**
- **The marginal borrowing rate ranges from 0,8% to 5,0%**

IFRS 16 TRANSITION METHOD

What is the IFRS 16 transition method used ?



Focus on IFRS 16

2 transition methods are available in IFRS 16:

- The **modified retrospective approach**: IFRS 16 lease liability is first measured as of January 01, 2019 based on the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at that date.
- The **full retrospective approach**: This transition approach requires entities to retrospectively apply the new standard to each prior reporting period presented (IAS 8).

Key take away

- **91% of companies used the modified retrospective approach to first apply IFRS 16**
- **Alhold Delhaize and ABinBEV used the full retrospective approach**
- **Deutsche Post voluntarily early applied IFRS 16 in 2018**

CONTACT

61, rue Henri Regnault
92075 La Défense Cedex
Tél. : (+ 33) (0) 1 49 97 60 00

www.mazars.fr
www.mazars.com

Yann Guyomar
Partner Treasury & Cash Management
Email : yann.guyomar@mazars.fr
Tél : +33 (0)6 65 60 14 34

Mathieu Vincent
Partner Treasury & Cash Management
Email : mathieu.vincent@mazars.fr
Tél : +33 (0)6 67 45 75 71

Photo © Getty Images.

Ce document est imprimé sur du papier 100 % recyclé issu de forêts gérées durablement.

MAZARS