THE A&M DISTRESS ALERT

July 2025

ALVAREZ & MARSAL

LEADERSHIP. ACTION. RESULTS.℠

CONTENTS

INTRODUCTION

The last 12 months have tested the resilience of European businesses as elevated interest rates, waning consumer confidence and political instability weighed heavily on corporate performance.

2025 began with cautious optimism for a moderate recovery, driven by ongoing disinflation and bets that easing rates would support growth. But the U.S. announcement of sweeping tariffs in April dealt a fresh blow to corporate outlooks. Global growth projections have since been revised downwards, with the World Bank recently lowering its 2025 forecast to 2.3%, the slowest rate since 2008, citing trade disruptions and uncertainty.[1]

If tariffs are fully implemented, industries highly exposed to global trade, such as automotive and chemicals, are expected to face earnings pressures from rising input costs and lower demand. Many more sectors may be indirectly affected, as the uncertain economic outlook hits consumers spending and business investment.

Meanwhile, rising geopolitical tensions, including the ongoing war in Ukraine, and escalating conflicts in the Middle East, threaten to drive up global energy prices and exacerbate inflation risks.

In such turbulent times, business leaders and financial stakeholders face critical questions: how financially sound is my business to weather this new wave of challenges? How resilient are balance sheets in withstanding these and other potential economic shocks?

The A&M Distress Alert aims to provide insights that can help answer these questions. The latest data, based on the financial analysis of nearly 8,000 businesses, reveals that 32% of European corporates had fragile balance sheets even before the introduction of tariffs, the highest proportion since 2021. Businesses with weak capital structures may tip into distressed territory sooner rather than later in an environment of earnings deterioration resulting from high tariffs and inflation.

1 https://www.cnbc.com/2025/06/10/world-bank-cuts-2025-growth-outlook-to-2point3percent-as-trade-tariffs-weigh.html

While distress levels stabilised year-on-year, they are still higher than two years ago. Nearly 700 businesses, or 8.8% of the companies, were classified as distressed in 2024, vs 8.4% in 2022.

The findings highlight vulnerabilities in sectors most exposed to tariffs, such as Automotive and Manufacturing, which have experienced some of the largest increases in distress levels across Europe. It also reveals cracks in industries like Business Services, Media, Entertainment & Media Services, and Healthcare.

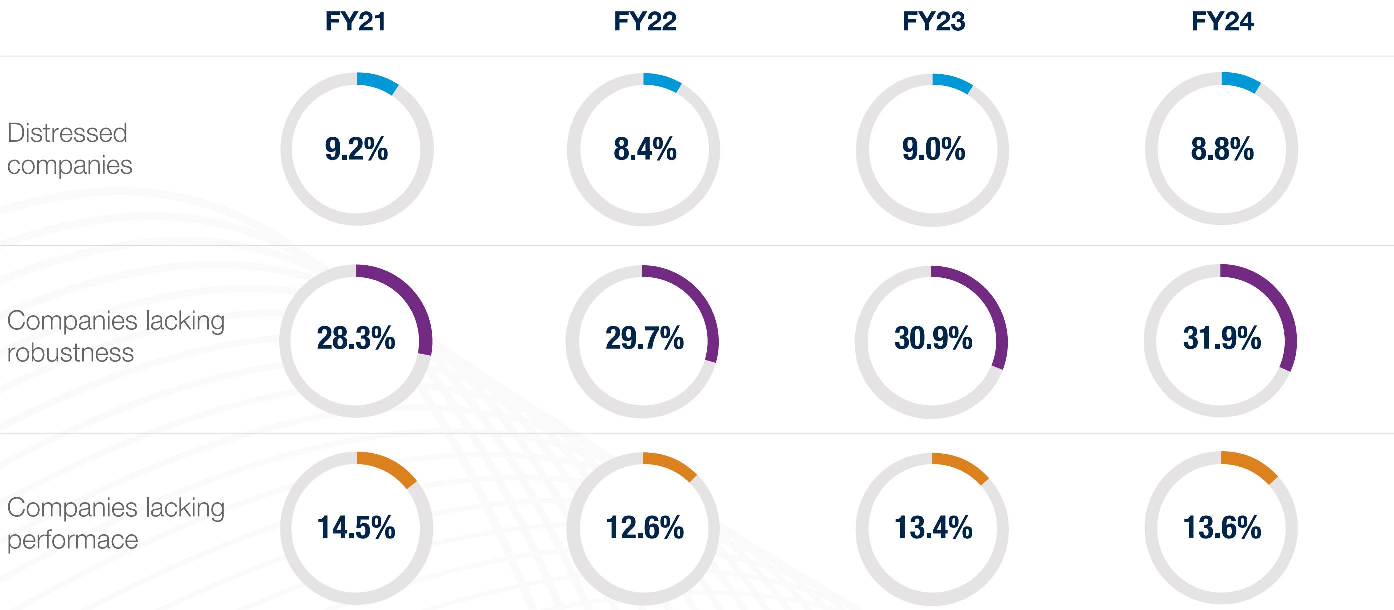
As profitability and cash flows pressures intensify amid the current tariff volatility, highly leveraged businesses may struggle to meet their financial obligations. Those facing upcoming maturities face additional challenges as increasing volatility in debt capital markets complicates refinancing plans.

Reflecting these risks, Fitch Ratings raised its 2025 default rate forecast for European leveraged borrowers in May.[2]

We view this tumultuous period as an opportunity for companies to pursue simultaneous enhancements in balance sheets and operational efficiency, positioning them to come out stronger in the future.

In this report, we explore the key findings of our latest analysis and discuss how the current economic outlook is likely to shape corporates' financial health through the rest of 2025 and beyond.

Figure 1



2 https://www.fitchratings.com/research/corporate-finance/us-tariffs-to-affect-issuers-of-two-thirds-of-european-leveraged-debt-16-05-2025

EXECUTIVE SUMMARY

The key findings of our most recent analysis include:

01 Distress levels plateau in respite before tariff turmoil

Levels of financial distress have stabilised year-on-year, with 8.8% of companies in the dataset of nearly 8,000 firms classified as distressed in 2024. This equates to 695 businesses, a little under the 713 from the year before. Notably, corporate financial health has deteriorated in eight out of 16 sectors and in several major markets, including Germany and France, two of Europe's largest economies.

02 Nearly a third of balance sheets are in a precarious state

Since 2020, the share of businesses lacking balance sheet robustness has steadily increased, reaching a record 32% of our dataset last year, which represents over 2,500 corporates. This trend highlights the persistent challenge of generating sufficient cash and profits to service corporate debt in an environment of higher interest rates and heightened uncertainty. With earnings likely to deteriorate in the wake of tariffs, more companies in this category may tip into distress.

03 France sees surge in distress; German firms remain strained

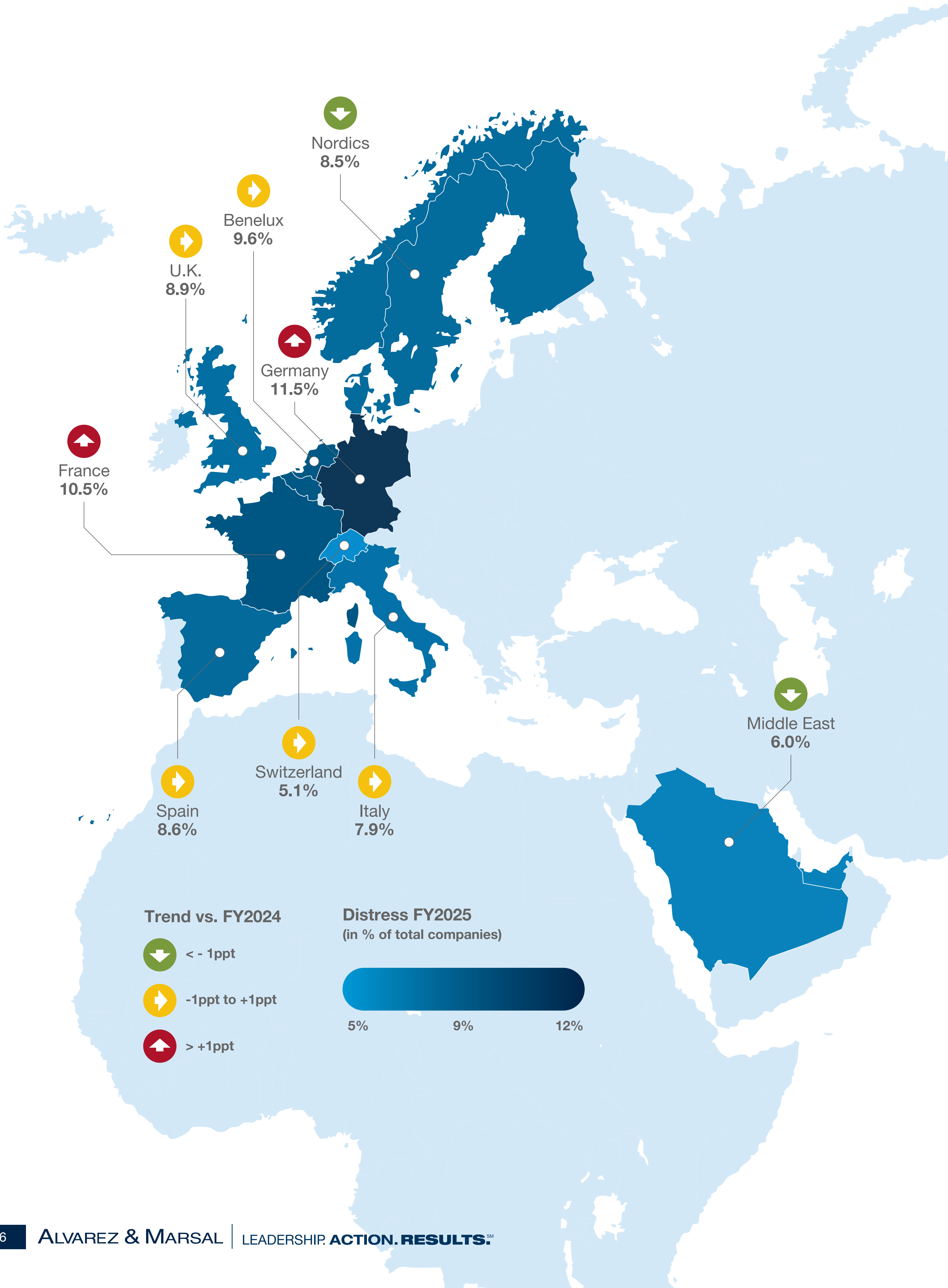
France recorded the sharpest increase in distress levels in 2024, rising to 10.5% from 8.1% the year before. The surge reflects an economic environment of subdued growth, deteriorating business and consumer sentiment, a weak labour market as well as political and fiscal challenges. Meanwhile, Germany, struggling with minimal growth over the past few years, emerged as the most distressed market in the analysis, with 11.5% companies in the dataset classified as distressed.

04 Rising distress in Entertainment & Media Services, Fashion Retail, Automotive

As in previous editions of this report, Media, Entertainment & Media Services (including fibre and alternative network providers) and Fashion Retail remain the most distressed sectors across countries. The latest data also shows a marked increase in distress among Automotive, Business Services, Commodities and Manufacturing companies. Additionally in the Automotive sector, balance sheet issues are a major concern, with four in ten businesses burdened by weakened capital structures.

05 Tariffs pose threat to growth and refinancing prospects

Volatility in the public debt markets, coupled with an economy impacted by tariffs and heightened geopolitical instability is expected to intensify operational and financial challenges for corporates going forward. The pressure will be particularly acute for lower-rated companies with debt maturing in the next six to 12 months, as they struggle to access the credit market to push out their maturity walls. We anticipate this will result in increased restructuring activity in the months and year ahead.

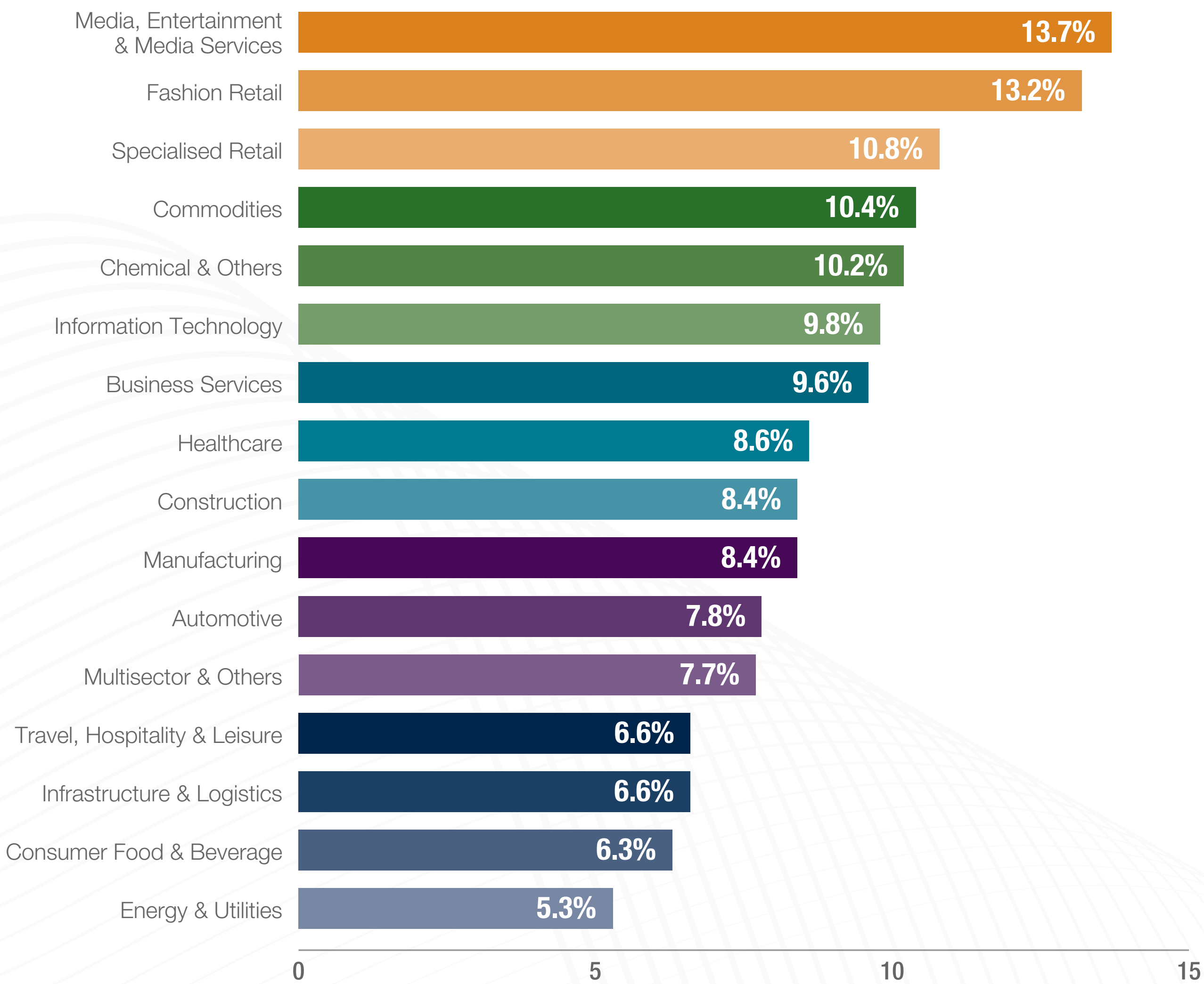

Nordics
8.5%
Benelux
9.6%
U.K.
8.9%
Germany
11.5%
France
10.5%
Spain
8.6%
Switzerland
5.1%
Italy
7.9%
Middle East
6.0%
Trend vs. FY2024
< - 1ppt
-1ppt to +1ppt
> +1ppt
Distress FY2025
(in % of total companies)
5%
9%
12%

SECTOR TRENDS

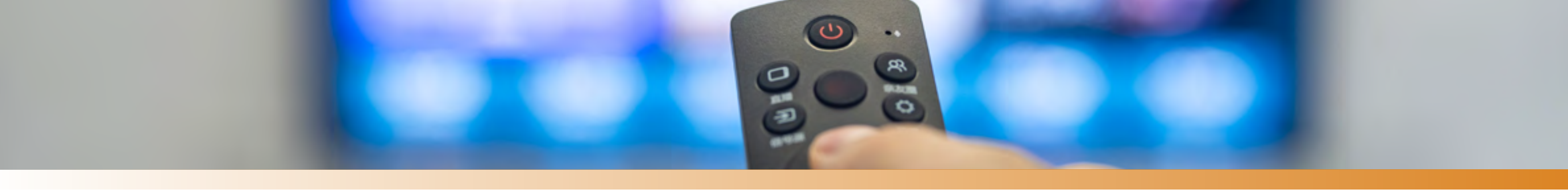
The latest data shows Media, Entertainment & Media Services as the most distressed sector across countries, followed by Fashion Retail and Specialised Retail[3].

Corporate health in the Automotive, Business Services, Commodities and Manufacturing sectors saw the most significant deterioration in the period analysed. Overall, eight out of 16 sectors experienced heightened distress in 2024 compared to the prior year.

Figure 2



3 Specialised Retail includes Computer and Electronics Retail, Consumer Electronics, Drug Retail, Home Furnishings, Home Improvement Retail, Household Appliances, among other sub-sectors.



MEDIA, ENTERTAINMENT & MEDIA SERVICES

- The Media, Entertainment & Media Services sector – which includes subindustries such as Alternative Carriers, Wireless Telecommunication Services, Advertising and Publishing – stands out as the most distressed among all sectors in the dataset, with 13.7% of all Media & Entertainment companies in the study classified as being in distress. In France, the U.K. and Spain, the sector is among the top three most distressed sectors.
- Around 38% of companies in the industry lack balance sheet robustness, one of the highest levels in the analysis, reflecting higher interest burdens faced by leveraged corporates.
- Firms in the sector continue to struggle with the reduction in discretionary spending on media services such as streaming subscriptions. The 2023 writers' strike in the U.S. is still reverberating, with disrupted film and TV production, delays in delivery timelines and increased costs.
- The Media landscape is increasingly congested, with numerous players competing for audience attention, leading to a highly fragmented market. This fragmentation, combined with changing audience behaviours, has made it more challenging for large legacy players to capture market share. As a result, the industry is experiencing varying levels of profitability and heightened share price volatility.
- In addition, many of the large studios are exiting and disposing of businesses, typically to improve free cash flow, profits or pay down debt given high cost of capital, as well as removing non-core business distractions.
- The fibre and alternative network (altnet) providers in the U.K. and Europe are grappling with rising costs, intense competition and a funding freeze. Many smaller operators are struggling to achieve profitability due to low customer uptake and high debt costs, leading to a shift from rapid expansion to survival strategies like cost-cutting, operational efficiency and right sizing of the balance sheet.

Key findings

	Movies and Entertainment	Publishing	Wireless Telecommunication Services
Worst sectors	27.2%	16.7%	15.8%

	Wireless Telecommunication Services	Communications Equipment	Movies and Entertainment
Worst trend sectors	10.5pp	7.7pp	1.2pp

	FY21	FY22	FY23	FY24
Distress in %	11.8%	11.5%	14.8%	13.7%

	FY21	FY22	FY23	FY24
Lacking performance in %	15.1%	17.6%	19.7%	18.0%

	FY21	FY22	FY23	FY24
Lacking robustness in %	33.8%	35.8%	38.6%	37.6%

FASHION RETAIL

- 13.2% of Fashion Retail companies in our dataset are classified as distressed, a slight decline from 14.5% a year earlier but still one of the highest levels among sectors. Both performance and balance sheets remain fragile with 16.5% and 31% of Fashion businesses classified as lacking performance or lacking robustness, respectively.
- Top-line growth in the sector is faltering due to restrained consumer spending and evolving buying behaviours, including a shift toward online shopping as well as a preference for discounted items and more sustainable products.
- Additionally, the sector struggles with a relatively high cost base – including expenses for personnel, marketing and rents – and the need for significant investments to enhance operational efficiency such as IT and cybersecurity upgrades. These factors contribute to increasingly thin profit margins.
- In the U.K., pressures on operating expenses have been exacerbated by increases in national insurance contributions and the national living wage, announced in the Autumn Budget and implemented this year, as well as other regulatory costs like new packaging taxes.

Key findings

	Apparel, Accessories and Luxury Goods	Apparel Retail	Textiles
Worst sectors	14.4%	14.2%	5.1%

	Textiles	Apparel, Accessories and Luxury Goods
Worst trend sectors	2.6pp	1.1pp

	FY21	FY22	FY23	FY24
Distress in %	16.5%	9.5%	14.5%	13.2%
Lacking performance in %	24.7%	12.0%	18.6%	16.5%
Lacking robustness in %	30.9%	26.0%	31.8%	31.0%

AUTOMOTIVE

- The Automotive sector has experienced the biggest year-on-year increase in distress levels across Europe (from 4.6% to 7.8%), driven by global competitive pressures, the transition to electromobility, as well as tariff-driven supply chain disruptions and cost increases.
- On top of worsening performance, auto businesses are burdened by weakened capital structures, with four in 10 lacking balance sheet robustness in our analysis.
- Carmakers and auto parts manufacturers have suffered amidst competitive pressure from Chinese and U.S. rivals, which has been compounded by escalating tariff wars more recently. German OEMs in particular have seen their market share decline as Chinese consumers increasingly prefer domestic brands, a trend that has intensified price competition and reduced margins.
- The sector remains heavily dependent on global supply chains for critical components such as batteries and semiconductors, making it vulnerable to geopolitical and trade disruptions.
- Given their long and global value chains, auto companies are severely exposed to U.S. tariff measures. We expect unavoidable cost increases driven by higher tariffs and trade disruptions to further increase financial pressure and weaken the sector's financial stability. Fitch Ratings forecast European OEMs' free cash flow generation and profitability will fall in 2025 as a result of tariffs.[4]
- These issues have prompted major companies across Europe to implement restructuring plans which include plant closures and workforce reductions.

Key findings

	Tires and Rubber	Automotive Parts and Equipment	Automobile Manufacturers
Worst sectors	25%	9.2%	6.4%

	Tires and Rubber	Automotive Parts and Equipment	Automobile Manufacturers
Worst trend sectors	25.0pp	2.5pp	2.2pp

	FY21	FY22	FY23	FY24
Distress in %	9.5%	8.2%	4.6%	7.8%

	FY21	FY22	FY23	FY24
Lacking performance in %	13.1%	11.7%	7.1%	9.9%

	FY21	FY22	FY23	FY24
Lacking robustness in %	30.7%	31.6%	31.3%	40.8%

4 https://www.fitchratings.com/research/corporate-finance/european-auto-oems-profits-to-fall-amid-tariff-turmoil-07-05-2025

COUNTRY TRENDS

Germany, France and the Benelux are the most distressed markets within the latest analysis, ranked in descending order. Notably, France has experienced the most significant rise in corporate distress over the last year. 10.5% of French companies in our dataset, the equivalent to 80 businesses, showed signs of distress in 2024, an increase from 8.1% (or 63 firms) recorded in the previous year.

BENELUX

- Distress levels have moderated in the Benelux market, dropping to 9.6% of companies in the dataset but still above the average for all countries, making it one of the three most distressed in Europe.
- As leverage continues to be challenging due to post-Covid tax debt and historically high interest rates, balance sheet weakness persists, with a third of Benelux businesses lacking robustness in 2024.
- The percentage of companies lacking performance rose from 11.5% to 13.4% in the period, reflecting squeezed margins due to historical inflation, supply chain issues, higher energy costs and geopolitical instability. In vulnerable sectors, weak performance is squeezing free cash flow, making it harder to cover the rising costs of debt servicing.
- Despite this environment, many companies were able to postpone restructuring thanks to covenant-light financing and investors viewing the challenges as external shocks rather than internal mismanagement.
- The most distressed sector in the Benelux market is Healthcare with 20% of businesses in this industry classified as distressed. Automotive (18.2%) and Fashion Retail (15.4%) are the second and third most distressed sectors in the region.
- The Healthcare sector continues to face rising labour costs due to staff shortages and a shift to costly interim contracts. These challenges, combined with a high fixed cost base, are putting severe pressure on margins. Meanwhile, government funding is falling short and subsidies for healthcare prevention are being cut.
- Automotive businesses in the region are affected by low consumer confidence and ongoing supply chain disruptions. The transition to electric vehicles has been slower than anticipated, with local innovation suffering from limited funding, while Chinese competitors rapidly gain market share.
- Fashion retailers are struggling with weak consumer spending and a shift toward online, affordable and sustainable alternatives. With high fixed costs and limited cash flow, investment in efficiency is constrained. The sector is still dealing with post-Covid tax burdens and geopolitical disruptions, which strain liquidity and supply chains. Bankruptcies are rising particularly among mid-market brands.

Key findings

	Health Care	Automotive	Fashion Retail
Worst sectors	20.0%	18.2%	15.4%

	Health Care	Infrastructure & Logistics	Travel, Hospitality & Leisure
Worst trend sectors	10.0pp	7.7pp	7.1pp

	FY21	FY22	FY23	FY24
Distress in %	10.7%	10.5%	10.0%	9.6%

	FY21	FY22	FY23	FY24
Lacking performance in %	18.3%	15.3%	11.5%	13.4%

	FY21	FY22	FY23	FY24
Lacking robustness in %	29.2%	32.7%	34.4%	33.1%

FRANCE

- Distress has accelerated markedly in France, reaching 10.5% of all companies, up from 8.1% the previous year – an increase of nearly 30%.
- The percentage of underperforming businesses has also climbed, from 9.6% to 14%. The proportion of firms lacking balance sheet robustness remains elevated at 34%, the second highest among countries and up from 31.3% a year earlier.
- This decline in corporate financial health reflects the country's tougher economic environment. After contracting in the fourth quarter of 2024, economic activity is expected to decelerate strongly in 2025, held back by fiscal adjustments, trade-related uncertainty weighing on sentiment and other macro factors.
- Reflecting an economy under pressure, business failures are at a historically high level, with 66,937 firms collapsing in the 12 months leading up to April 2025. This represents a 10.6% increase compared to the previous period, and remains above the 2010-2019 average. More recently, domestic economic climate has been deteriorating, with decline in the industrial and services sectors, two key drivers of the country's growth.
- Rising costs are placing a heavy burden on French businesses, squeezing their profitability. Many are struggling to pass these increases onto customers due to weak demand and intense competition. Another factor is the withdrawal of government support schemes implemented during the Covid crisis, which has left vulnerable firms even more exposed.
- According to our analysis, Healthcare companies are the most troubled, with 17.3% classified as distressed. The sector continues to be heavily impacted by rising costs (salaries, energy, rents) and by the financial fragility of medical-social structures, which are significantly indebted.
- The Media & Entertainment industry remains strained in France amid declining advertising investment, rising production costs and an overall fragile post-Covid profitability.

Key findings

	Health Care	**Multisector & Others**	**Media, Entertainment & Media Services**	
Worst sectors	17.3%	17.1%	16.7%	
	Business Services	**Multisector & Others**	**Infrastructure & Logistics**	
Worst trend sectors	12.3pp	9.2pp	8.5pp	
	FY21	**FY22**	**FY23**	**FY24**
Distress in %	11.9%	7.2%	8.1%	10.5%
	FY21	**FY22**	**FY23**	**FY24**
Lacking performance in %	15.6%	10.1%	9.6%	14.0%
	FY21	**FY22**	**FY23**	**FY24**
Lacking robustness in %	29.6%	29.9%	31.3%	34.0%

GERMANY

- Corporate distress in Germany has increased steadily, reaching the highest level since the pandemic. Currently, 11.5% of German firms in our dataset are classified as distressed, highlighting the mounting economic pressures on Europe's largest economy as it struggles with faltering global demand, high energy costs, infrastructure and competitiveness issues, as well as political instability both at home and abroad.
- The proportion of firms with insufficient balance sheet robustness has surged in recent years, now representing 31.5% of all businesses, up from 25.5% two years ago. Similarly, the percentage of companies with underperforming operations has grown to nearly 18%, from 14.3% in 2022.
- Sector-specific analysis reveals that Specialised Retail is the most distressed sector in Germany, while Business Services has experienced the biggest year-on-year increase in distress levels.
- Retailers are facing pressures from e-commerce competitors and the need for increased digitalisation. Large online platforms are increasingly dominating even niche markets, while many specialised retailers struggle with a technological lag.
- Adding to the challenges are persistently weak consumer sentiment and a challenging situation in Germany's city centres, with declining visitor numbers and increasingly vacant spaces. Forecasts by the German Retail Association estimate 4,500 retail stores will close their doors permanently in 2025.[5]
- Distress within Business Services is driven by factors including skilled labour shortages, changing customer expectations and rapid digital transformation and technological disruption, including from AI.
- The proportion of Automotive and Manufacturing companies classified as distressed has also increased. The export-oriented sectors continue to struggle due to rising energy costs, global competition and a drop in demand in key markets. These pressures have been compounded by the threat of tariffs more recently.

Key findings

	Specialised Retail	Commodities	Energy & Utilities
Worst sectors	19.0%	17.6%	17.6%

	Business Services	Commodities	Specialised Retail
Worst trend sectors	12.5pp	11.8pp	9.5pp

	FY21	FY22	FY23	FY24
Distress in %	8.1%	8.7%	9.7%	11.5%
Lacking performance in %	15.2%	14.3%	15.9%	17.9%
Lacking robustness in %	25.3%	25.5%	29.2%	31.5%

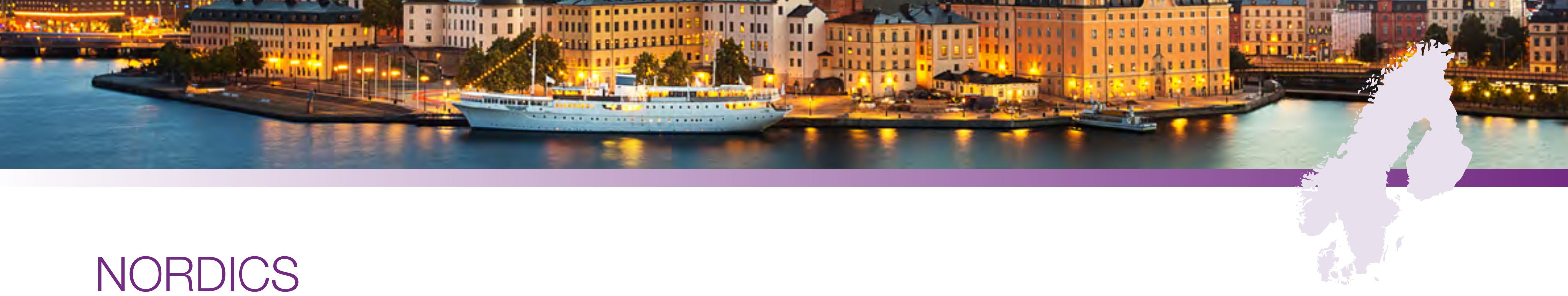
5 https://einzelhandel.de/presse/aktuellemeldungen/14768-hde-prognose-zahl-der-geschaefte-sinkt-2025-um-4-500

ITALY

- In Italy, distress levels have plateaued year-on-year at around 8%. However, distress levels remain on an upward trajectory since the pandemic years, with current levels representing an increase from 7% in 2021 and 2022.
- The proportion of companies with insufficient balance sheet robustness has also grown steadily over the past four years, now accounting for 33.6% of all Italian firms in the dataset, the third highest percentage among the countries analysed.
- Sectoral analysis highlights Commodities as the most distressed industry in Italy, with 21% of companies in this sector classified as distressed. The sector is particularly affected by major players in the steel industry facing a prolonged crisis, partly due to high energy costs that significantly impact production.
- The Travel, Hospitality & Leisure sector, which was hit hard during the Covid-19 pandemic, showed signs of recovery in the years after. However, firms in the sector still feature among the most distressed in Italy (13.3% of all Travel & Hospitality companies), likely reflecting balance sheet issues generated during the pandemic. Business Services also remains a key distressed sector, with 11.8% of companies classified as distressed.
- Moreover, distress levels have surged in the Automotive sector on a year-on-year basis, reflecting a crisis particularly among Tier 1 suppliers, caused by weak demand that is leading to consolidation and liquidations.

Key findings

	Commodities	Travel, Hospitality & Leisure	Business Services	
Worst sectors	21.1%	13.3%	11.8%	
	Automotive	**Business Services**	**Commodities**	
Worst trend sectors	6.9pp	5.9pp	5.7pp	
	FY21	**FY22**	**FY23**	**FY24**
Distress in %	7.0%	7.0%	8.0%	7.9%
	FY21	**FY22**	**FY23**	**FY24**
Lacking performance in %	12.6%	11.4%	13.2%	12.4%
	FY21	**FY22**	**FY23**	**FY24**
Lacking robustness in %	29.9%	30.5%	32.5%	33.6%



NORDICS

- The proportion of Nordic companies classified as distressed has decreased to 8.5% in our latest analysis, from 9.7% in the previous year. However, 32.3% of businesses are still struggling with weak balance sheets, indicating a challenging operating environment.
- Specialised Retail, Business Services and Travel, Hospitality & Leisure are facing the highest levels of distress in the region. Retail businesses are under pressure due to weak consumer spending, the impact of indexed rent increases and the repayment of Covid-assistance state loans in 2023 and 2024.
- Firms in the Business Services sector have been affected by tighter corporate budgets and capex wallets, leading to less room to acquire services and consultancies.
- Elsewhere, stress in the Real Estate industry has eased as debt capital markets reopened, enabling refinancings. Renewables and Project Finance sectors continue to see challenges.
- The region has seen a number of rescue equity rights issues last year, which helped secure liquidity and resolved many stressed and distressed situations. Additionally, the Nordic markets experienced increased large-cap restructuring activity, with several companies undergoing formal proceedings including Intrum Justitia, Northvolt and Plantasjen.

Key findings

	Specialised Retail	Business Services	Travel, Hospitality & Leisure	
Worst sectors	17.6%	16.9%	12.9%	
	Specalised Retail	**Business Services**	**Chemical & others**	
Worst trend sectors	8.8pp	4.2pp	3.6pp	
	FY21	**FY22**	**FY23**	**FY24**
Distress in %	7.6%	10.6%	9.7%	8.5%
	FY21	**FY22**	**FY23**	**FY24**
Lacking performance in %	10.4%	14.2%	14.7%	12.7%
	FY21	**FY22**	**FY23**	**FY24**
Lacking robustness in %	26.1%	30.4%	31.0%	32.3%

SWITZERLAND

- Overall, corporate distress levels in Switzerland rose slightly to 5.1% in 2024, up from 4.5% the year before, reflecting subdued economic momentum amid persistent macroeconomic uncertainties.
- The proportion of companies lacking operating performance increased to 14.6% from 9.1% in the previous period. Meanwhile, 22.7% lacked balance sheets robustness, a moderate rise from 21.7% in 2023.
- Switzerland continues to demonstrate a resilient business landscape, outperforming other European countries where, on average, 13.7% of companies lack performance and 31.9% lack robustness. The more conservative lending policies of Swiss lenders contribute to more crisis-resistant financing structures for Swiss corporates, which continues to provide stability in the current economic climate.
- Specialised Retail, Construction and Consumer Food and Beverages were the top distressed sectors, with 14.3%, 8.3% and 7.7% of companies in these industries flagged as distressed, respectively.
- While demand for food items and grocery sales remained stable, mid-sized producers and independent outlets faced margin compression due to rising energy, logistics and input costs. Weakening consumer sentiment and tighter household budgets further strained non-essential spending.
- Meanwhile, the Construction sector struggled under higher interest rates and administrative delays, despite some growth driven by renewable energy projects and affordable housing initiatives. While investments in infrastructure and urbanisation projects may fuel a potential recovery in the coming years, business expectations in the sector remain subdued, according to the KOF Swiss Economic Institute.
- Swiss pharmaceutical companies, which rely heavily on the U.S. as a key export market, face growing uncertainty due to proposed U.S. tariffs on pharmaceutical imports, which could impact profit margins and disrupt established trade flows.
- Looking ahead, the significant appreciation of the Swiss franc against major global currencies is likely to pose challenges to a variety of businesses exporting products or services, such as manufacturing, pharma, tourism and luxury retail.

Key findings

	Specialised Retail	Construction	Consumer – Food and Beverage
Worst sectors	14.3%	8.3%	7.7%

	Specialised Retail	Consumer – Food and Beverage	Manufacturing
Worst trend sectors	14.3pp	7.7pp	2.9pp

	FY21	FY22	FY23	FY24
Distress in %	5.6%	5.1%	4.5%	5.1%
Lacking performance in %	9.1%	11.1%	9.1%	14.6%
Lacking robustness in %	21.7%	21.2%	21.7%	22.7%

U.K.

- Corporate distress in the U.K. has improved, dropping to 8.9% of all British companies in the dataset (around 250 businesses) from 9.8% the year before, though it remains among the highest percentages in the countries analysed.
- The moderation may reflect a period of improved visibility after the U.K. and U.S. elections last year. The U.K. economy grew unexpectedly in late 2024 and early 2025, in a temporary reprieve before U.S. tariffs and significant rises in employment taxes and in the minimum wage took effect in April.
- However, the outlook for corporates remains fraught with uncertainty. In April, the economy suffered its worst monthly contraction since 2023 as the trade war hit exports and tax increases held back the services sector.
- Despite recent interest rate cuts, borrowing costs remain high, and inflationary pressures persist. These factors continue to restrict corporate cash flows, particularly for highly leveraged businesses, many of which are struggling to manage their debt obligations.
- Consumer-facing sectors are under strain as households face higher utility bills and reduced confidence due to tariff and tax changes. Sub-sectors reliant on discretionary spending are particularly hit, as consumers hold back on fashion and big-ticket items in an uncertain macro environment.
- Fashion Retail is the most distressed U.K. sector, with 20.8% of businesses classified as distressed, followed by Media, Entertainment & Media Services (19.6%) and Chemical & Others (14.3%).
- Despite some recovery in 2024, fashion sales volumes have not returned to pre-pandemic levels, and remain affected by reduced consumer spending amid the cost-of-living crisis. Meanwhile, retailers face escalating operational costs, including energy bills, business rates and inventory expenses, alongside higher employment costs.
- In Entertainment & Media Services, reduced disposable income has impacted consumer spending on subscriptions, leading to slower growth in streaming services and increased competition through pricing strategies. The fibre and altnet industry is struggling with the need to invest significantly in advanced connectivity technologies like 5G and full-fibre networks.

Key findings

	Fashion Retail	Media, Entertainment and Media Services	Chemical & Others	
Worst sectors	20.8%	19.6%	14.3%	
	Commodities	**Automotive**	**Chemical & Others**	
Worst trend sectors	8.3pp	4.8pp	2.9pp	
	FY21	**FY22**	**FY23**	**FY24**
Distress in %	10.0%	8.3%	9.8%	8.9%
	FY21	**FY22**	**FY23**	**FY24**
Lacking performance in %	16.9%	12.8%	15.1%	14.3%
	FY21	**FY22**	**FY23**	**FY24**
Lacking robustness in %	27.3%	27.2%	29.6%	30.7%

CONCLUSION

A&M's latest Distress analysis highlights the growing financial vulnerabilities across European corporates, with 32% of businesses exhibiting fragile balance sheets and 8.8% classified as distressed in 2024. The findings underscore the mounting pressures from geopolitical tensions, tariff-driven cost increases and persistent inflation, which are straining profitability and cash flows, particularly in highly leveraged sectors. As refinancing challenges intensify, the risk of defaults and restructuring activity is expected to rise in the coming months.

Sector-specific trends reveal that industries reliant on global trade and discretionary consumer spending are among the hardest hit. Automotive businesses face escalating input costs and supply chain disruptions, while Fashion Retail and Media, Entertainment & Media Services struggle with reduced consumer spending power and rising operational expenses, as well as other long-term trends including changing audience and spending behaviours.

HOW A&M CAN HELP

Companies looking to protect earnings and balance sheets against these market challenges must act proactively. Some of the key preventive measures for management, boards and financial stakeholders include:

For companies facing imminent distress, their chances of a successful restructuring can significantly increase by focusing on the following areas:

Business model review

Transparency regarding profitable and cash-burning areas, clients and products, along with robust business planning grounded in realistic analyses, will help business leaders understand the impact of market conditions and changes in customer behaviour so they can implement the necessary counter measures early enough.

Plan for volatility

Permanent screening of macroeconomic drivers, peer behaviour analysis and scenario planning should be conducted in a three-way financial planning model. Relying on business-as-usual practices is no longer enough given the several operational and financial headwinds facing companies.

Liquidity assessment

Critical review of short-term cash flow forecasting and cash management tools to obtain a robust platform for restructuring remains a top priority when situations become challenging or resolution uncertainty rises.

Robust three-way financial planning

The development of a robust, integrated financial plan which combines the business plan and the impact from restructuring measures is vital to evaluate the feasibility of a restructuring against different scenarios.

A&M has the most comprehensive suite of services to help companies and their stakeholders through challenging times. Our multi-function, European-wide Restructuring team brings decades of experience of working on the world's largest and most complex transactions and gaining consensus amongst multifaceted stakeholder groups to deliver outstanding outcomes against difficult backdrops.

These core restructuring services are supported by complementary skills that can address every aspect of complex transactions from within one team. Our deep strategic, operational and financial expertise, valuations and tax advice combined with cutting-edge contingency planning and bias-to-action culture ensure we can get a transaction done in any circumstances.

METHODOLOGY

A&M's Financial Restructuring Advisory team has developed a methodology to assess the performance and balance sheet robustness of European businesses, aiming to identify those that are in financial distress or may soon be heading in that direction.

The study includes 7,900 listed and private companies, each with annual revenues exceeding €20 million, across 33 countries in Europe and the Middle East. These companies consistently provided data for all financial years from 2020 to 2024.

The ADA index analyses 18 KPIs to create two sub-scores: the performance score, which is based on the company's own income statement as well as related KPIs measured against its industry peers, and the robustness score, based on detailed balance sheet data.

The scores are applied on a scale from zero (heavily impacted) to 10 (very solid situation). Based on the scoring, companies are clustered into four groups: businesses that are in or on the verge of financial distress because they have significant deficits in both their financial and earnings situations (cluster 1), those with weak balance sheets (cluster 2), those with weak performance (cluster 3) and finally, firms considered to be in a healthy financial position (cluster 4).

Index-based clustering

Explanation ADA and recommended actions

Cluster 1/ (Di)stressed: companies have (significant) deficits in terms of both their financial and earnings situation. These therefore have ***insufficient liquidity and/or inadequate and unsustainable capital structures*** and, at the same time, ***weak/insufficient profitability***. Some of these companies are therefore likely to be in "financial (di)stress".

Cluster 2/ Weak balance sheet robustness: companies with a robust earnings/profit performance but insufficient liquidity and/or inadequate and unsustainable capital structures. These companies are in a potential ***need of a financial restructuring***.

Cluster 3/ Weak financial performance: companies have a fundamentally solid balance sheet but show weaknesses in their earnings or profitability. These companies are in a potential ***need of performance improvement measures***.

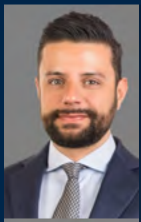
Cluster 4/ Healthy: includes companies that have a solid balance sheet and robust earnings.

CONTACTS

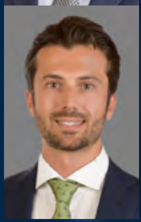
ROGER BAYLY
EUROPEAN CO-HEAD OF FINANCIAL AND OPERATIONAL RESTRUCTURING
+44 776 855 8620
rbayly@alvarezandmarsal.com

CHRIS JOHNSTON
EUROPEAN CO-HEAD OF FINANCIAL AND OPERATIONAL RESTRUCTURING
+44 777 068 3687
chris.johnston@alvarezandmarsal.com

RUDOLF THOMEER
EUROPEAN CO-HEAD OF FINANCIAL AND OPERATIONAL RESTRUCTURING
+31 646 22 48 58
rthomeer@alvarezandmarsal.com



ALESSANDRO FARSACI
MANAGING DIRECTOR, HEAD OF RESTRUCTURING SWITZERLAND
+41 78 600 50 66
afarsaci@alvarezandmarsal.com



GIOELE BALMELLI
DIRECTOR, RESTRUCTURING SWITZERLAND
+41 79 708 04 87
gbalmelli@alvarezandmarsal.com

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Founded in 1983, Alvarez & Marsal is a leading global professional services firm. Renowned for its leadership, action and results, Alvarez & Marsal provides advisory, business performance improvement and turnaround management services, delivering practical solutions to address clients' unique challenges. With a world-wide network of experienced operators, world-class consultants, former regulators and industry authorities, Alvarez & Marsal helps corporates, boards, private equity firms, law firms and government agencies drive transformation, mitigate risk and unlock value at every stage of growth.

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