RESTRUCTURING

The A&M Distress Alert

MARCH 2025

Corporate financial health in Europe deteriorated further in 2024, with Germany emerging as the most distressed country among nine markets analysed for this preview of the Alvarez & Marsal Distress Alert (ADA).

The ADA assesses the robustness of balance sheets and earnings of thousands of companies across 33 countries, identifying companies that are in financial distress, as well as those with weak balance sheet robustness or weak performance (read more on the Methodology on page 5).

Around 17% of German companies in the dataset are now classified as distressed, highlighting the mounting economic pressures on Europe's largest economy as it struggles with faltering global demand, high energy costs, infrastructure issues and political instability both home and abroad. Operational performance issues have intensified among German firms, with 22.4% showing weaknesses in their earnings or profitability in 2024 – a sharp rise from 13.1% the previous year and the highest percentage in Europe.

The trend of accelerating distress is not confined to Germany. Seven out of nine markets in the study, including major economies like the U.K. and France, saw distress levels rise over the past year. Distressed companies now account for 11.5% of European and Middle Eastern businesses in the dataset, matching levels last seen during the peak of the pandemic.

EMEA distress levels (as % of total companies)

	FY22	FY23	LTM24
Companies in distress	8.2%	9.4%	11.5%
Companies with weakening performance	11.9%	13.6%	16.3%
Companies with weakening robustness	30.2%	32.5%	35.4%

As well as elevated distress, our latest analysis shows worsening trends in both balance sheet robustness and financial performance of European businesses in 2024. The percentage of firms lacking financial performance has jumped to over 16%, reflecting rising pressures on topline growth and profitability in a macroeconomic environment of slower growth, still-elevated interest rates, reduced consumer sentiment and rising geopolitical tensions that have made corporate planning increasingly complex and uncertain.

Balance sheet robustness has also deteriorated significantly in 2024. The share of businesses with weakened financial structures has risen to 35.4% of the total companies in our database, with some countries like France seeing this figure climb to 40%.

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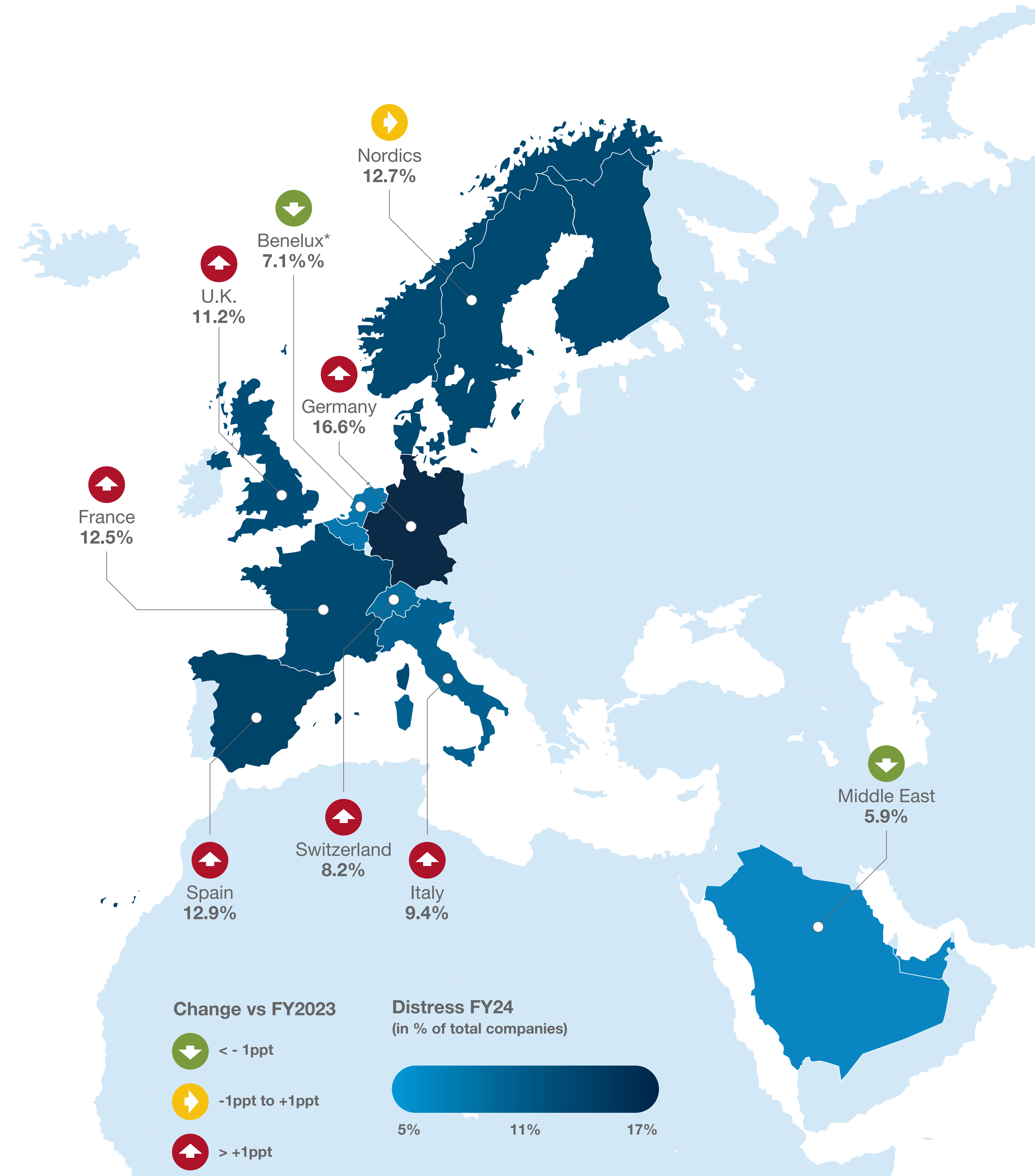
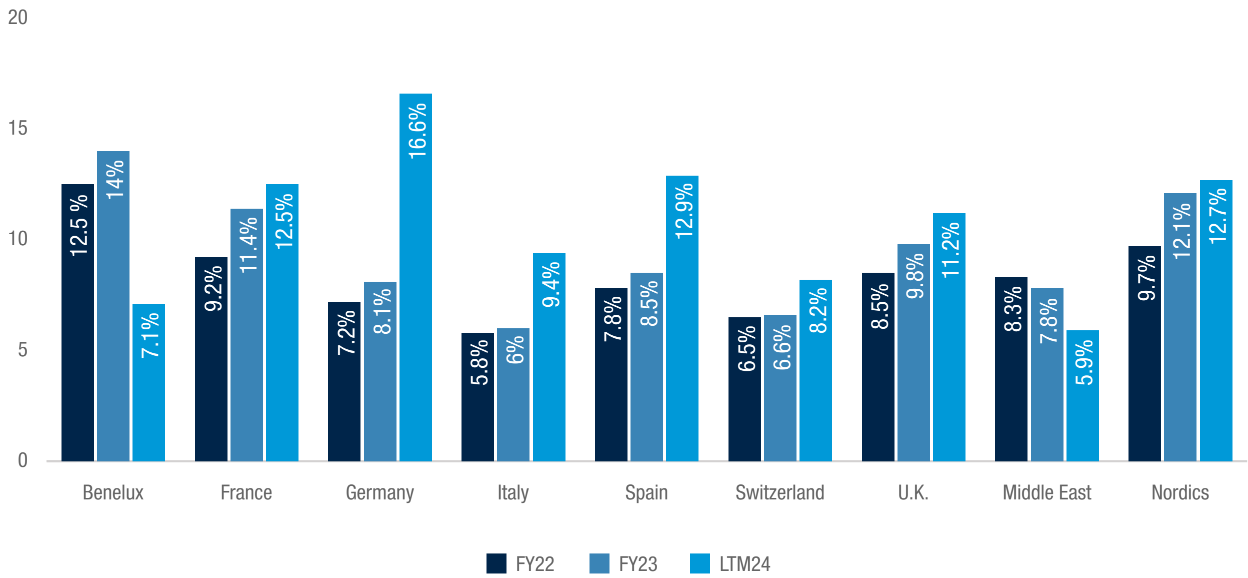


*Due to significant change in size and sector mix of Benelux companies reporting financial results by November 2024, the figures may not be statistically relevant.

Country trends

Corporate distress levels have increased in seven of the nine markets covered in our analysis, with only the Middle East and Benelux bucking the trend. The biggest year-on-year increases were observed in Germany, now the most distressed market in the region, followed by Spain, Italy, Switzerland and the U.K.

Distress levels (as % of total companies)



Germany: rise in distress as economy contracts

More than one in five German companies are struggling with performance issues, a significant jump from just 13.1% a year before, and the highest percentage among all countries

The sharp rise in distress among German corporates underlines the severity of the economic downturn facing the country, which after two years of contraction could be heading to its longest period of stagnation since World War II.

In recent years, high energy prices, slower demand from China and increasing global competition have placed immense pressure on key export-led sectors such as automotive, manufacturing and chemicals. Some including BASF and VW announced widespread cost-cutting programmes and plant closures last year, setting off ripple effects across the value chain and the wider economy.

But economic problems have been around for much longer, with a mix of cyclical and structural issues including a severe shortage of skilled labour, high corporate taxes and excessive bureaucracy weighing on German businesses' competitiveness for many years. This has been compounded by recent political stability. With snap elections held in February 2025, the country faces at least six months of political limbo between the collapse of the last government and the formation of a new one.

Against this backdrop, more than one in five German companies are struggling with performance issues, a significant jump from just 13.1% a year before, and the highest percentage among countries. Meanwhile, nearly 37% of them have been identified as having weak capital structures.

Commodities (33.3% of total companies in distress), Energy & Utilities (26.7%), Specialised Retail (25%), Construction (20%) and Automotive (18.2%) are the most distressed sectors in Germany. Additionally, distress among the country's Fashion Retail and Automotive companies has accelerated in 2024, more than doubling from 2023 levels.

U.K.: challenging conditions amid political uncertainty

In the U.K., recent months have seen a rise in both corporate financial distress and restructuring activity. The latest data shows 11.2% of U.K. companies are in distress, compared to 9.8% the previous year. The proportion of U.K. businesses with insufficient liquidity and/or inadequate capital structures (lacking robustness) has risen to 34.4% from 30.4% in 2023, while those with weak earnings or profitability accounted for 15.5% of all companies.

The proportion of U.K. businesses with insufficient liquidity and/or inadequate capital structures has risen to 34.4% from 30.4% in 2023

The country has experienced a prolonged period of economic uncertainty following the 2024 general election. The increase in employers' National Insurance contributions and the national minimum wage, announced in the new government's budget last Autumn, are set to further impact sectors that rely heavily on low-wage labour, such as Retail, Consumer, Hospitality, Manufacturing and Construction.

Sector trends

Across EMEA countries, Fashion Retail, Chemicals, Specialised Retail, Media & Entertainment and Manufacturing had the highest level of distress in 2024. Financial woes accelerated most markedly in Fashion Retail and Chemicals over the past year, with nearly one in five in these industries considered to be in distress in our latest data. Overall, 11 sectors experienced increased distress in 2024 versus the prior year, while only three saw decreases and one remained stable.

Sector	Distress %	Trend
Fashion retail	19.8%	↑
Chemical & others	18.2%	↑
Specialised retail	14.9%	↑
Media, Entertainment and Media Services	12.8%	↓
Manufacturing	12.6%	↑
Construction	12.5%	↑
Infrastructure & Logistics	11.9%	↑
Information Technology	11.3%	↑
Commodities	11.1%	→
Business Services	10.9%	↑
Travel, Hospitality & Leisure	10.2%	↓
Health Care	10%	↑
Multisector and others	9.2%	↑
Automotive	9.2%	↑
Consumer – Food and beverage	7.4%	↑
Energy & Utilities	6.6%	↓

Change vs FY2023

↓ < - 1ppt → -1ppt to +1ppt ↑ < - 1ppt

Methodology

The A&M Distress Alert systematically assesses performance and balance sheet robustness of European businesses through a proprietary methodology developed by seasoned restructuring experts on the basis of extensive practical experience, aiming to identify those that are in financial distress or may soon be heading in that direction.

The study is based on data from over 20,000 companies with over €20 million of annual revenues across 33 countries in Europe and the Middle East that consistently provided data for the full years between 2020 to 2023, and from approximately 3,700 companies that have reported financial results through November 2024.

How A&M can help

A&M has the most comprehensive suite of services to help companies and their stakeholders through challenging times. Our Financial & Operational Restructuring specialists bring decades of experience of working on the world's largest and most complex restructurings and gaining consensus amongst multifaceted stakeholder groups to deliver outstanding outcomes against difficult backdrops.

These core restructuring services are all supported by a comprehensive suite of complementary skills to address every single aspect of the most complex transactions from within one team, including deep strategic, operational and financial expertise, valuations and tax advice together with cutting-edge contingency planning support to ensure we can get a transaction done in any circumstances.

A&M. Leadership. Action. Results

Leading companies, financial institutions and public entities turn to Alvarez & Marsal (A&M) to solve their operational, financial and regulatory challenges and provide turnaround management solutions that work. Companies around the globe are facing unprecedented operational and financial challenges due to ever more complex global markets and the rapid disruption across industries.

A&M is uniquely positioned to help your business confront challenges and provide you with solutions that bring long-term value. As your trusted partner, we will provide clarity and deliver results from beginning to end – driving critical change that will optimise performance, maximise value and mitigate risks. Our team brings significant industry experience covering a variety of different sectors including consumer products, energy, financial services, healthcare, industrials, life sciences, media, natural resources, pharmaceuticals and technology.

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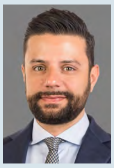

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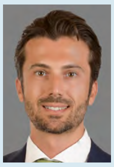

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