European Automotive Newsletter

- “The Eternal Patient” – Why Automotive Turnarounds Often Don’t Deliver Lasting Success
- Are Chinese OEMs the Solution for European Automotive Suppliers to Compensate Lost Volumes?
- Transaction Activity
- Quarterly Update of Financial KPIs

December 2025

“The Eternal Patient” – Why turnarounds of automotive suppliers often don’t deliver lasting success. What are the reasons and how to escape?

In the heart of Europe’s automotive supply chain, the metaphor of the “eternal patient” rings tragically true: distressed suppliers are kept alive by recurring, semi-solid turnarounds, yet fail to achieve sustainable rehabilitation. The consequences are felt throughout the industry mainly at small and medium supplier, but also large corporates start to feel the pressure - eroding competitiveness, triggering job losses, and risking systemic failure. Below we explore reasons for this endemic situation, its consequences, and how from a German suppliers’ viewpoint a different strategic mindset is required.

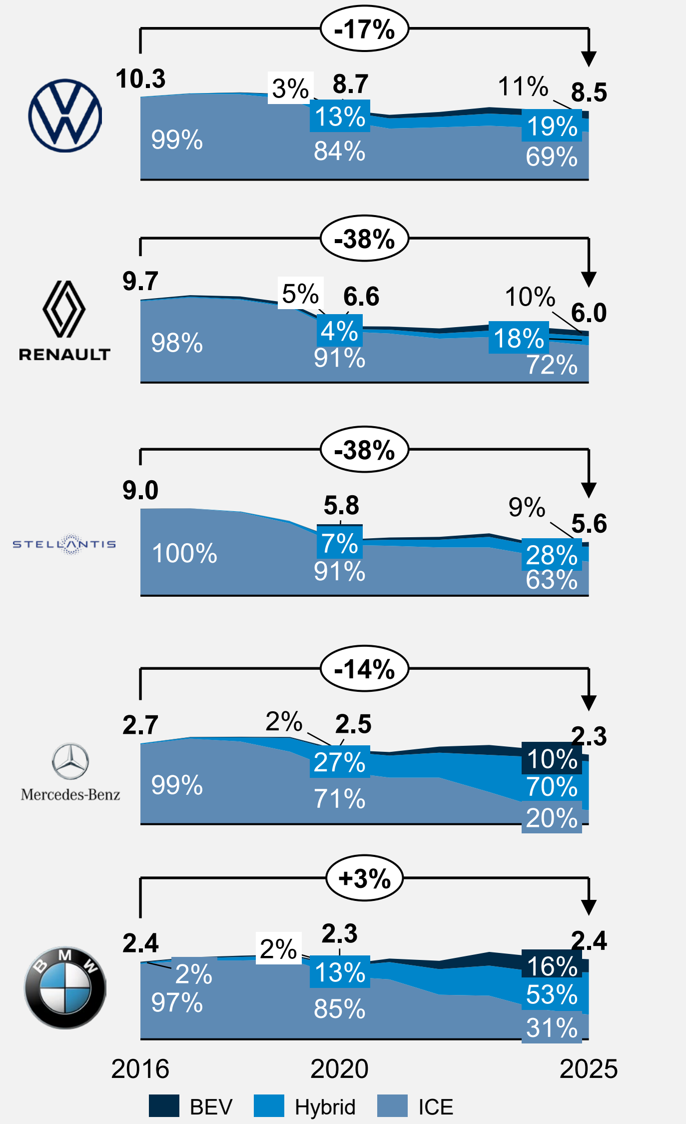
Why Turnarounds Often Fail

From the perspective of a European supplier, the persistent failure of restructurings has several related root causes:

1. Persistent Volume Decline - No Plateau in Sight

Since 2016, the automotive market has faced continuous crises, leading to steadily declining volumes rather than a stabilizing plateau. Production capacities are still designed for historic high volumes, and both individual suppliers and the entire industry are struggling with underutilization. Many are reducing output while having challenges with the reduction of high fixed costs, thereby turning a cyclical downturn into a structural contraction. The substantial decline in Chinese demand, the US-tariff discussions, and the volatile and unpredictable shift from ICE (Internal Combustion Engine) to BEV (Battery Electric Vehicle) together with the overall economic downturn in the European key markets are leading to a general decline in vehicle demand, a reduction of parts per car, tightening margins, limited flexibility, and eroding planning certainty.

Production Volumes 2016-2025 (#m units)



Source: S&P Capital IQ, Company Information, UBS, A&M analysis

“The Eternal Patient” – Why Turnarounds of Automotive Suppliers Currently Often Don’t Deliver Lasting Success

2. Lack of Consolidation: Volumes Remain Fragmented

The declining volume across the industry would require considerably more downsizing initiatives and consolidation among suppliers. However, most turnarounds lack a more comprehensive, industry-wide perspective – which should be provided by the OEMs. As a result, the existing product portfolio is often maintained, and profitability can only be achieved via price increases.

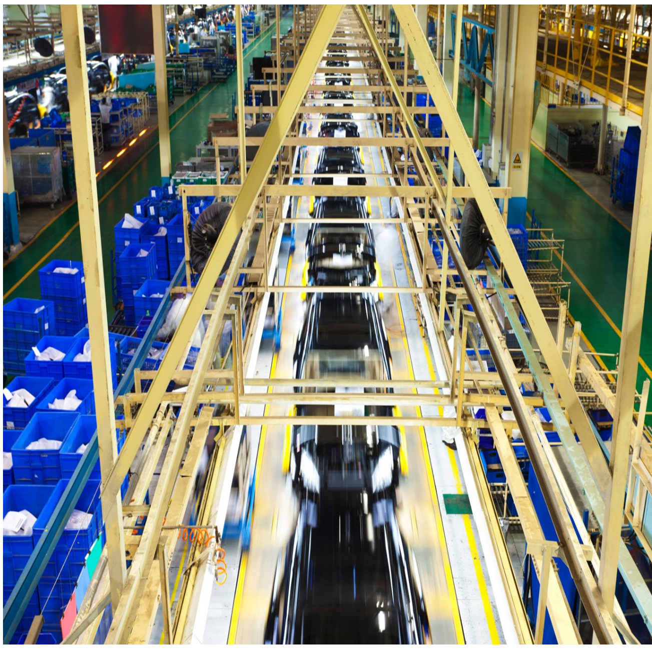
The fact that future volumes are currently difficult to predict, even by the OEMs themselves, makes the development of proper business plan as base for the restructuring process extreme difficult and sustainable turnarounds increasingly out of reach.

Medium-Sized Automotive Supplier Survey – Germany Investment Climate

23%	19%	1%
*Of German suppliers **relocating investments** abroad*	*Of German suppliers planning to **cancel investments** abroad*	*Of German suppliers **increasing investments***

Source: VDA Survey (2024)

3. Limited Appetite To Bear the Costs of a Sustainable Turnaround



Restructurings require significant investment: workforce reductions, plant closures and relocations, new tooling, requalifycation of parts, and portfolio re-alignment.

Yet the key stakeholders are reluctant to take these investments with the owners not willing – or not being able – to contribute further, banks trying to avoid write offs and hence not reducing the debt to a sustainable level and customers requesting stability of supply, competitive pricing and avoidance of high supplier consolidation costs.

Costs have to be carried by the supplier alone, with insufficient participation from OEMs, banks or existing and new equity investors, at least to the extent needed.

As a result, turnarounds tend to be more about “life-support” than genuine transformation: cost are cut to keep the company alive, but no robust future business model is built.

4. New Money or PE Investors Are Restrained

Due to the current risks associated with the European automotive industry and the difficulty to predict the future development of the sector, only a very small number of equity investors or M&A players are active in this field. Such activism is also extremely selective and limited to a few cases.

Thus, the required “bold move” (large capital injection, radical repositioning) is missing. Without that, suppliers are left with incremental cost cuts rather than repositioning for future growth.

Source: S&P Capital IQ, Company Information, UBS, A&M analysis

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Consequences

The above dynamics lead to several serious consequences — from the micro-level (individual supplier) to the macro (industry ecosystem).

- The supplier industry is drifting toward a distressed state - both small players and increasingly large firms.
- Cost-driven restructurings lower the operating point (i.e., cost base) but leave little room for growth. True recovery now requires innovation and investment (e.g., in electrification, software, new materials) - which most suppliers cannot fund from operational cash flows anymore.
- Suppliers that undergo turnaround often fail to fully recover – remaining in a limbo of weak profitability, underinvestment and vulnerability. They become the “eternal patient” that survives but does not recover.
- The strain is spreading: as more suppliers struggle, OEMs face higher risks - from supply chain fragility to caliber issues - while overcapacity and shrinking volumes continue to erode prices and margins.
- If the supplier ecosystem weakens, the competitiveness of the entire automotive industry declines - with serious implications for jobs, regional economic clusters, and innovation leadership.

What Needs to Change

Overcoming this situation requires a shift - not just in execution, but in mindset and strategy.

1 Rethink the Model: Consolidate and Harvest Remaining Volumes

Instead of treating suppliers individually, the industry must steer existing volumes to a right-sized base: bundling demand, reducing overcapacity, and eliminating “zombie” suppliers.

2 Change the Perspective: Portfolio Consideration vs. Single Supplier Restructuring

Suppliers shouldn’t be rescued only on a case-by-case basis. OEMs, banks, and governments need to adopt a joint portfolio perspective - identifying which players to invest in, exit, or merge. That means focusing not only on cost and profitability but also on ecosystem positioning.

3 Rebuild Competitive Strength - Focus on Innovation, Growth and Competitiveness

Cost cuts alone are generally insufficient. Suppliers have to invest in future technologies, new markets and lean yet capable footprints.

4 Provide the Framework – Appropriate Political and Regulatory Environment Required

Given Europe’s complex regulatory and labor environment, policy must enable portfolio consolidation, innovation funding, and competitiveness. A successful turnaround needs both internal action and external support to stay competitive.

The current era poses the toughest challenge in decades. Cost-cutting alone is no longer effective - shrinking volumes and structural overcapacity have made the old model obsolete. Sustainable success demands bold moves, smart portfolio management, ecosystem consolidation, and forward-looking investment - before the “eternal patient” becomes irrecoverable.

Are Chinese OEMs the Solution for European Automotive Suppliers to Compensate Lost Volumes?

Opportunities and Risks from a European Supplier Perspective

The European automotive supply industry faces declining volumes, excess capacity, and financial distress on a broad scale. As Chinese carmakers gain global market share and expand internationally, they may offer new customer potential for European suppliers. Yet, while cooperation could help bridge capacity gaps and open access to new markets, it also brings significant challenges - from localization demands and cost pressure to uncertain production planning and cultural barriers.

The Structural Challenge

European automotive suppliers are in transition. The rapid loss of volumes, driven by disruptions in the U.S. and Chinese markets as well as the shift toward electric mobility have left many Tier-1 and Tier-2 suppliers with underutilized production infrastructure and declining profitability.

The total vehicle output in Europe is projected to stabilize at around 16.5 million units by 2030, compared to over 20 million before 2020. Meanwhile, China continues to increase global production, accounting for more than 30 million vehicles in 2024, with a strong push into export markets.

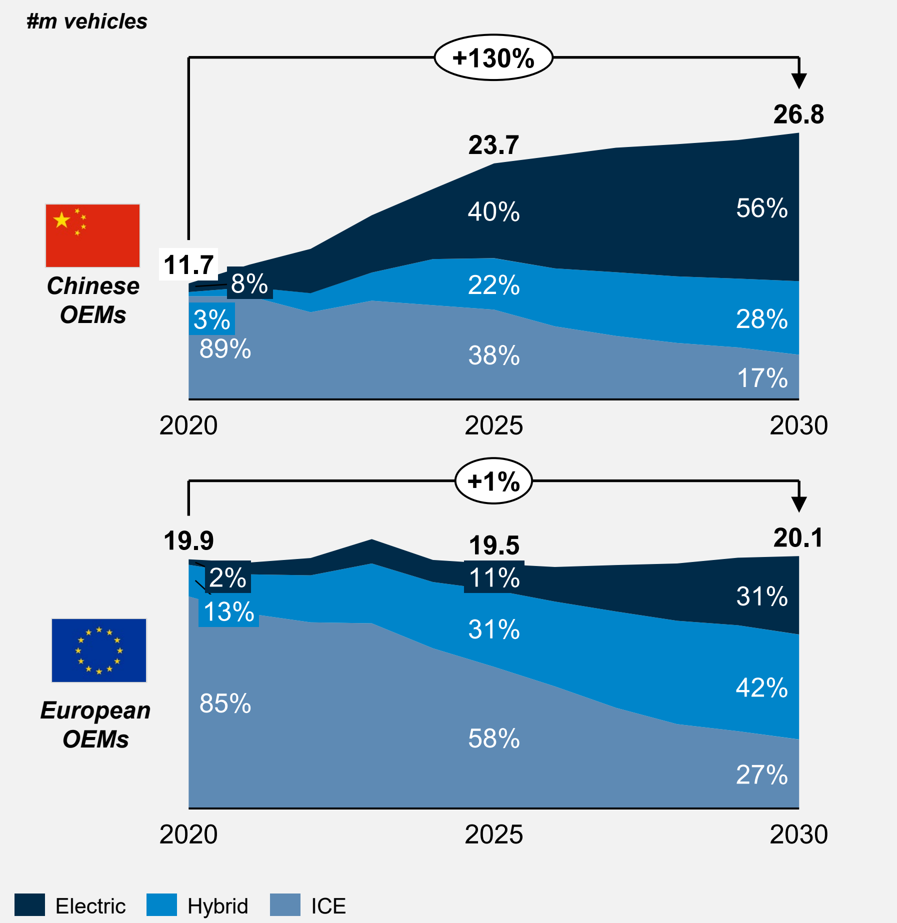
Against this background, the question arises: **Can Chinese OEMs serve as alternative customers for European suppliers looking to compensate lost volumes?**

Arguments in Favor

Chinese OEMs Value European Expertise: Chinese OEMs seek European engineering and quality expertise - particularly in powertrain, chassis, and thermal systems - to enhance global quality perception, allowing European firms to leverage their strengths despite declining home-market demand.

Capacity Utilization for Underutilized Production Assets: Partnering with Chinese automakers can help suppliers utilize idle production lines and avoid costly new investments or write-offs. As European factories face declining volumes, supplying Chinese customers - either through exports or joint ventures - can provide an interim solution to keep production assets running efficiently.

Global production European vs. Chinese OEMs



Source: S&P Capital IQ, Company Information, UBS, A&M analysis

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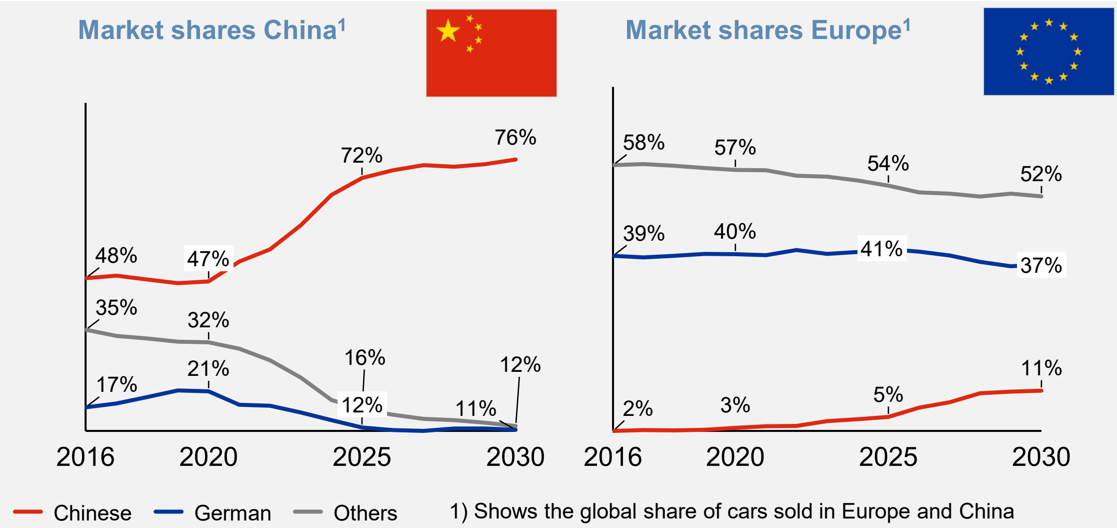
Chinese OEMs Are Gaining Market Share: Chinese brands now hold more than 70% of their domestic market and could account for 12% of European sales by 2030. Their rapid expansion creates new sourcing opportunities as OEMs like BYD, Geely, MG, and NIO build local assembly and distribution net-works.



1) Shows the global share of cars sold in Europe and China (German OEMs vs. all Chinese OEMs)

Arguments Against

Proximity and Localization Requirements: Automotive logistics rely on just-in-time and just-in-sequence deliveries. To serve Chinese OEMs, suppliers often need manufacturing presence in Asia or near new European plants. Existing equipment might be repurposed, but relocation or new tooling is often required - reducing the investment advantage.

Rapid Product Cycles and Planning Uncertainty: Chinese OEMs pursue highly agile model strategies, quickly scaling back or cancelling underperforming vehicles and platforms. For suppliers, this means lower planning reliability and potential write-offs. Volume forecasts can change within months - the forecast uncertainty is higher than with traditional European OEMs.

Rising Chinese Technological Competence: China has outgrown its low-cost manufacturing role - with strong local expertise in power electronics, e-drives, and integrated systems, reliance on European know-how is shrinking - weakening foreign suppliers' long-term position. China has become an innovation hub for drivetrains and vehicle architecture - not just a manufacturing center.

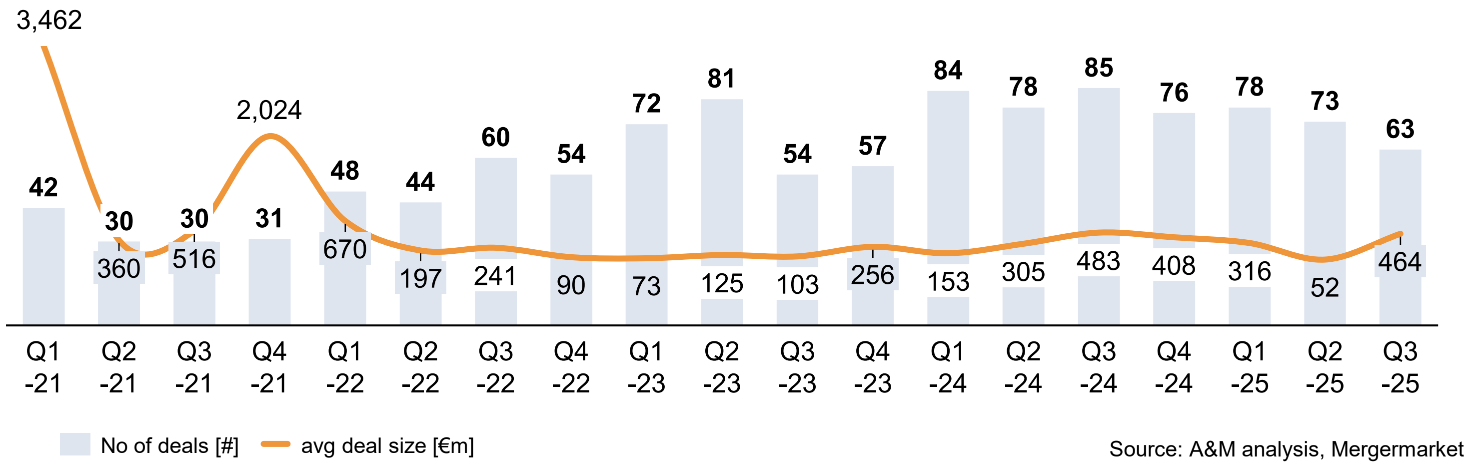
Competitive and Cultural Barriers: European suppliers face cost disadvantages, different business cultures, and relationship-driven procurement models. Local Chinese suppliers enjoy proximity, government support, and often lower cost structures while differing negotiation styles, decision-making, and contract practices add further complexity.

Market Consolidation and Volatility: The Chinese automotive sector is expected to undergo a massive consolidation. Over 100 active OEMs compete for market share while experts expect only 20–25 to survive beyond 2030. European suppliers have to be vigilant: as today's promising customer could exit the market tomorrow.

From a European supplier's perspective, cooperation with Chinese OEMs offers selective opportunities to absorb capacity and support the ICE-to-EV transition. However, it demands targeted investment, careful partner selection, and robust risk management to navigate cost pressure and volatility. The Chinese market can stabilize capacity - but not save the industry; success hinges on clear strategy, technology edge, and adaptability.

Source: UBS, Capital IQ, A&M analysis

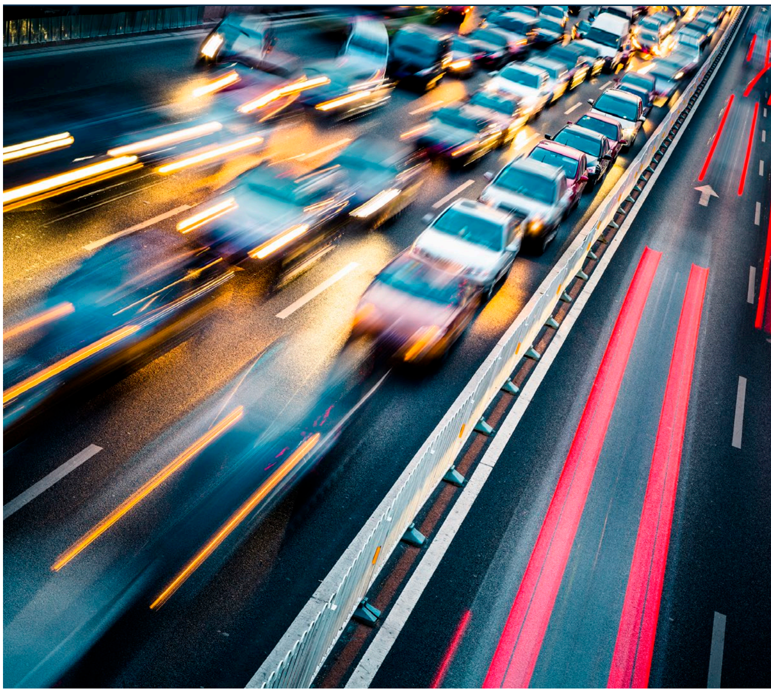
European M&A Activity – Automotive



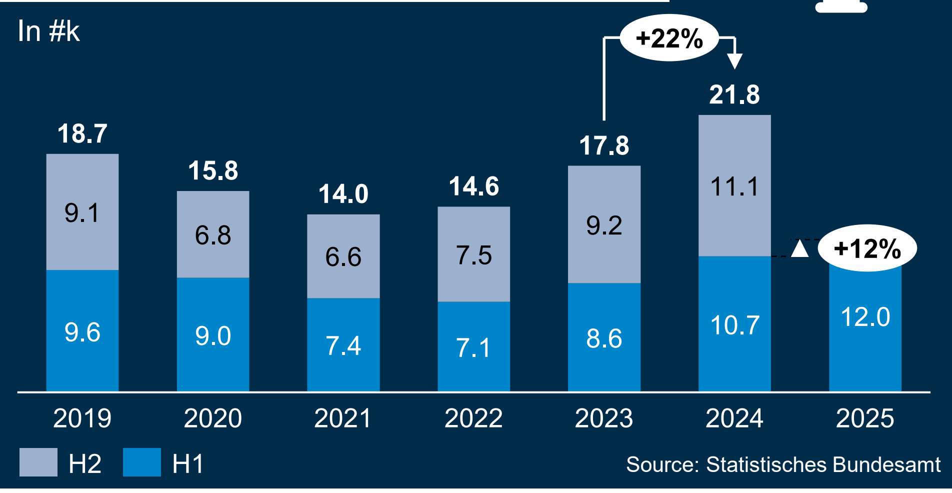
Source: A&M analysis, Mergermarket

Despite a challenging economic environment, European automotive M&A remained stable in 2025. Deal volumes held steady, while the first half of the year saw restrained average deal sizes as companies focused on smaller, targeted transactions. It was only in Q3 2025 that a few larger deals sharply increased the average, while the median deal size remained largely unchanged.

M&A continues to serve as a critical lever for transformation as automakers face tightening EU regulations, electrification demand, and rising pressure to build software and battery capabilities. At the same time, higher financing costs, volatile demand and persistent EV price pressure are driving more companies into financially challenging situations, widening the field of potential acquisition opportunities.



Insolvency Filings in Germany



Source: Statistisches Bundesamt

Insolvency Steadily Increasing:

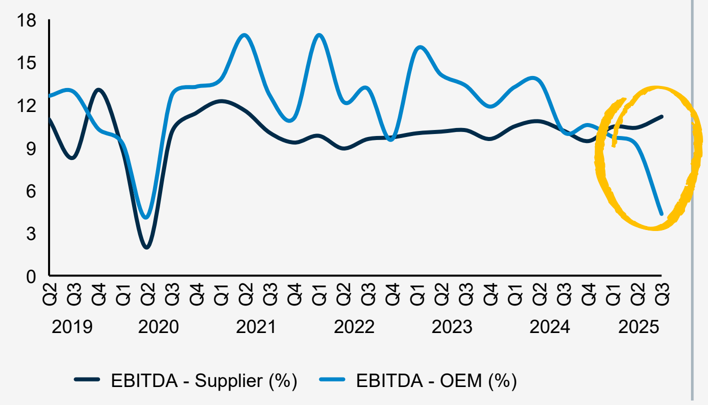
- Filings in 2025 have reached 12k in the first half year, with the potential to mark a 10-year high by Dec.
- This follows several years of declining insolvency numbers from 2019 to 2021.
- Financial strain has intensified since 2023, driven by rising financing costs and fears of recession.
- Insolvencies among companies with revenues above €10m have risen sharply, increasing by 31% (364 cases in 2024).
- Overall insolvency filings increased by 22% from 2023 to 2024.

Source: Mergermarket, Statistisches Bundesamt, IfM Bonn, A&M analysis

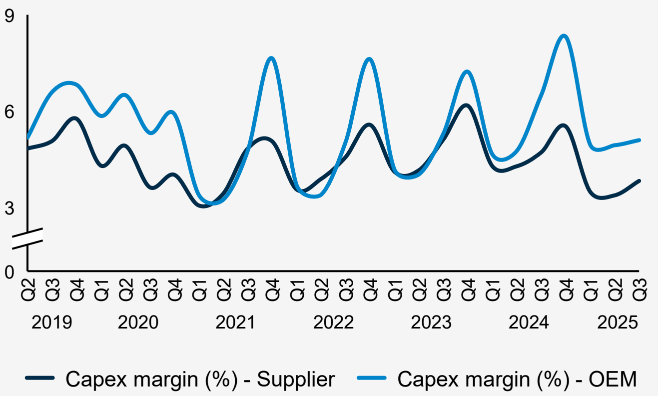
KPIs: Automotive Performance Update

- This industry snapshot of financial KPIs compares the quarterly published results of c. 20 OEM and c. 70 automotive suppliers since 2019.
- The OEM EBITDA margin has shown a steady downward trend since Q1 2023, with a significant decline in Q3-2025 indicating a growing profitability issue compared to suppliers' relatively stable EBITDA margins over the same period.
- OEM net debt leverage shows a steady and continuous increase since Q3-2023.
- OEM inventory levels show a steady increase to above average levels.
- Declining DPO and increasing DSO on supplier site are a sign that liquidity management becomes more and more crucial on both ends of the value chain

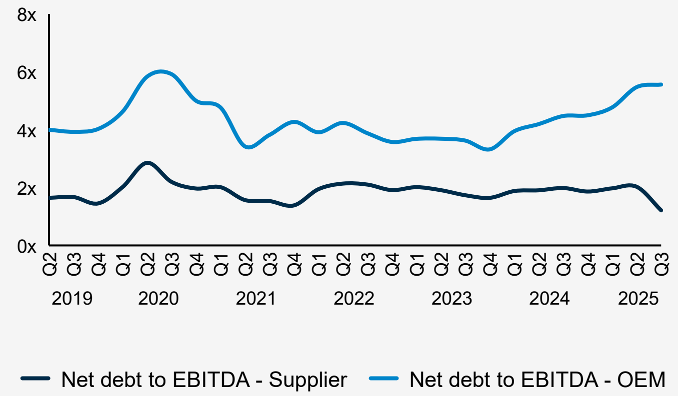
EBITDA margin (%) – Supplier vs. OEM



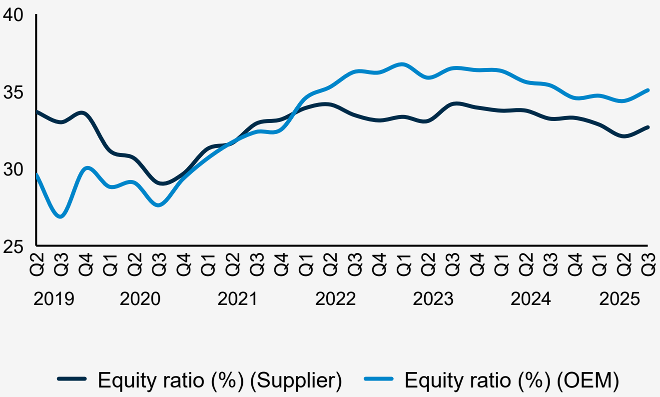
Capex margin (%) – Supplier vs. OEM



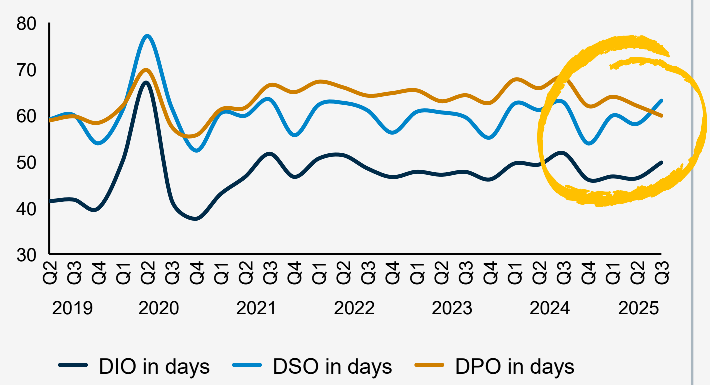
Net debt to LTM EBITDA ratio – Supplier vs. OEM



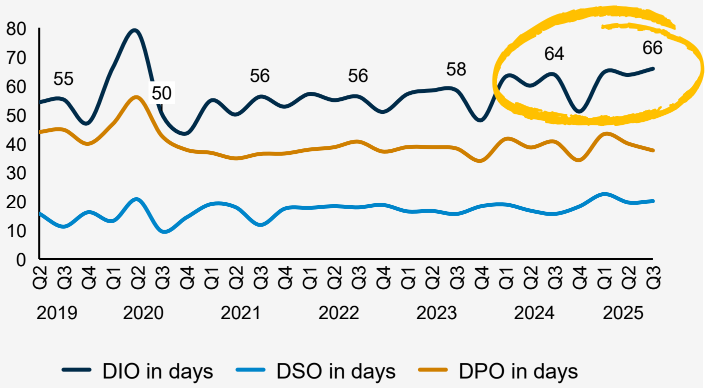
Equity ratio (%) – Supplier vs. OEM



Quarterly WC KPIs in days – Supplier



Quarterly WC KPIs in days – OEM



Note: results not adjusted for extraordinary or one-off effects

Source: S&P Capital IQ, Company Information, A&M analysis

KEY CONTACTS

JOACHIM LUBSCZYK

Managing Director

Restructuring, Munich

jlubsczyk@alvarezandmarsal.com

PAUL RHEBORG

Senior Director

Restructuring, Munich

prheborg@alvarezandmarsal.com

RICHARD HELL

Managing Director

Corporate Transformation Services, Munich

rhell@alvarezandmarsal.com

GÖTZ KLINK

Managing Director

Corporate Transformation Services, Munich

gklink@alvarezandmarsal.com

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