



# THE A&M DISTRESS ALERT

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# CORPORATE DISTRESS SPREADS ACROSS EUROPE AS BUSINESSES STRUGGLE WITH FRAGILE DEMAND AND TRADE INSTABILITY

- France and Germany among the top distressed markets; UK distress levels continue to rise
- A record 36% of European businesses lack balance sheet robustness
- Discretionary Retail, Manufacturing, Chemicals, Automotive are some of the most distressed sectors

## INTRODUCTION

Financial distress is accelerating and becoming more entrenched across European businesses as mounting macroeconomic and geopolitical pressures eroded both earnings and balance sheet resilience in 2025.

According to the latest Alvarez & Marsal (A&M) Distress Alert (ADA), 13.5% of companies in Europe are now classified as distressed, the highest level since at least 2022 and up from 8.6% in 2024.

All nine regions covered in the analysis recorded an increase in the proportion of distressed companies in 2025. Among major economies, the weakest spots were Italy (18% of businesses identified as distressed), followed by France (16%), Nordics and Germany (both with around 15%). In the UK, corporate distress has continued to rise, with 9% of companies classified as distressed, up from 7% in 2024.

### How we define distress



According to the ADA methodology, companies classified as likely to be in distress have significant deficits in terms of both their financial and earnings situation. They have insufficient liquidity and/or inadequate and unsustainable capital structures and, at the same time, weak/insufficient profitability, both on a stand-alone basis as well as compared to their industry peers. Read more about the methodology on page 12.



The ADA assesses the balance sheet robustness and earnings resilience of thousands of companies across 33 countries in Europe and the Middle East, identifying firms in distress as well as those showing weak financial fundamentals or deteriorating performance.

The widespread deterioration in 2025 highlights how the cumulative effect of cost pressures, fragile demand, and geopolitical and trade instability is exposing underlying balance-sheet weaknesses of European corporates.

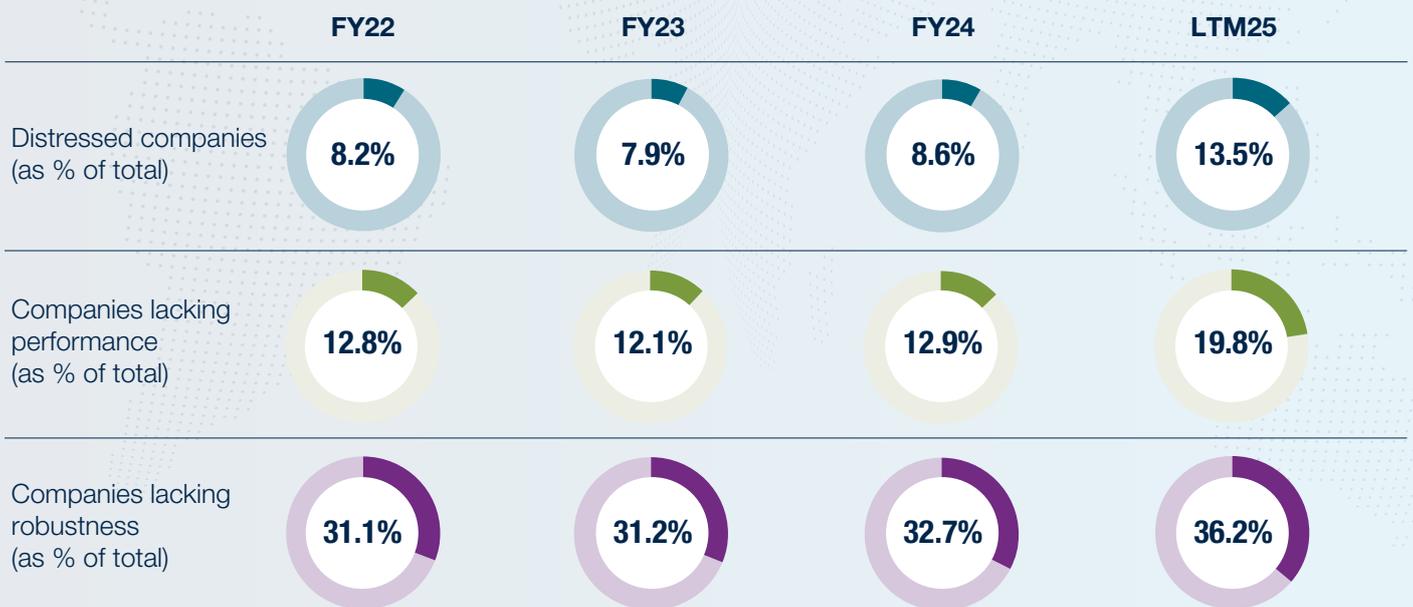
Across the region, 36% of companies – the equivalent of 1,628 businesses – are identified as lacking balance sheet robustness, the highest proportion since at least 2022. In countries including Germany, France and Italy, this share rises to around 40%.

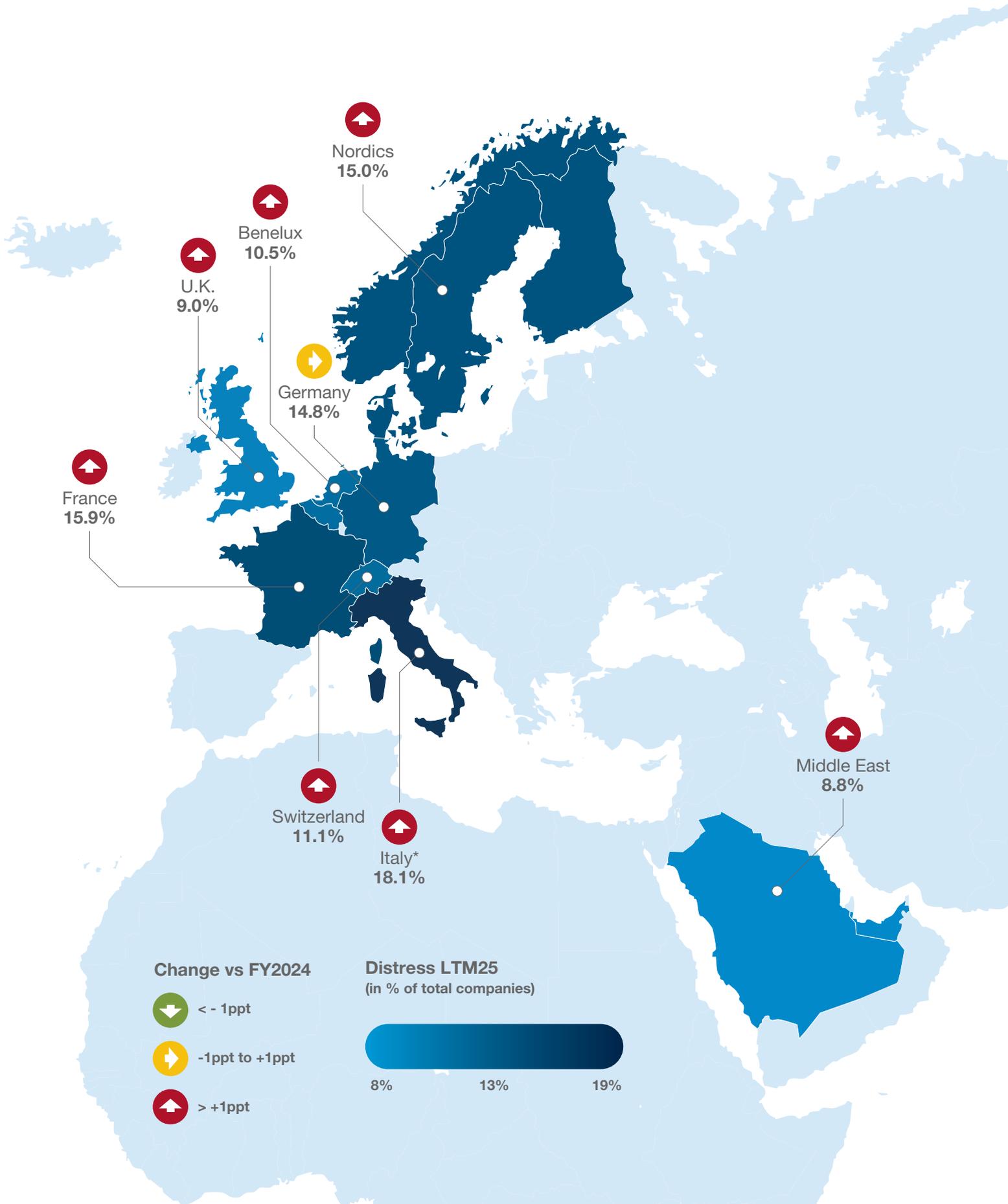
Businesses lacking robustness are characterised by weak metrics such as net debt, equity ratio and leverage, both on a standalone basis and relative to industry peers.

Many firms sitting in this cohort raised debt at the height of the zero-rates era but have been unable to deleverage as expected, given the challenging market environment and higher interest rates and inflation of recent years. Even if the cost of debt has eased recently, for companies with weaker capital structures or business models, access to financing remains limited, as lenders stay selective in the current business context. This points to a likely increase in restructuring activity going forward.

### Key findings

Trends in corporate distress across Europe





\*Due to significant change in size and sector mix of Italian companies reporting financial results by November 2025, the figures may only offer an indicative view.

# KEY FINDINGS

Earnings performance has deteriorated markedly in 2025, according to the latest data. The share of companies classified as lacking performance reached one in five, an increase of 53% year-on-year. These are firms that typically underperform in key metrics such as revenue development, EBITDA margins and cash generation.

All regions saw an increase in the percentage of companies lacking performance, with France showing the sharpest deterioration. The share of French firms in this category nearly doubled from 12.8% in 2024 to 22.5% in 2025; in the UK, the share of underperforming companies jumped from 9.8% to 16%. Companies in Germany, Italy and the Nordics also presented above-average levels of underperformance.

Sluggish economic growth, slowing sales and tariff headwinds have depressed earnings over the past year. In industries like Chemicals, Manufacturing and Automotive, competition from China and weak demand domestically have added further pressure to already-weakened topline growth and profitability.



# SECTOR HIGHLIGHTS

At the sector level, pressure remains concentrated in industries most exposed to discretionary spending and international supply chains.

Fashion Retail and Specialised Retail, together with Manufacturing and Chemicals, showed the highest distress levels, with around 17% of companies flagged as distressed. Automotive, Business Services and Construction follow closely, with around 15% of companies in distress.

Chemicals experienced one of the largest increases in distress year-on-year, a reflection of the crisis facing Europe's once-dominant industry. The sector's structural decline, resulting from weak demand, Chinese competition and high energy costs, has continued into 2025 with a string of plant closures, output cuts, and shift of production to other regions.

## Top distressed sectors

Companies in Discretionary Retail, Chemicals and Manufacturing are the most distressed

Sector	% of companies in distress	Trend
Specialised retail	17.0%	↑ +6.8ppt
Fashion retail	16.9%	↑ +4.8ppt
Chemical & others	16.2%	↑ +5.8ppt
Manufacturing	16.2%	↑ +6ppt
Construction	15.7%	↑ +4.9ppt
Multisector and others	15.2%	↑ +9.6ppt
Business Services	14.9%	↑ +5.2ppt
Automotive	14.6%	↑ +8.8ppt
Commodities	13.6%	↑ +4ppt
Media, Entertainment and Media Services	13.1%	↑ +2.5ppt
Travel, Hospitality & Leisure	12.8%	↑ +8.3ppt
Energy & Utilities	11.7%	↑ +5.9ppt
Health Care	11.5%	↑ +5.6ppt
Information Technology	11.4%	↔ +0.5ppt
Consumer - Food and beverage	9.4%	↑ +2.7ppt
Infrastructure & Logistics	8.4%	↑ +5.2ppt

## Change LTM25 vs FY24

↓ < - 1ppt
↔ -1ppt to +1ppt
↑ > + 1ppt

# COUNTRY TRENDS

Corporate distress levels have risen in all nine markets covered in our analysis. The steepest year-on-year increases were observed in Italy, France and the Middle East, with a substantial rise also recorded in the Nordics region.

## GERMANY

Particularly in Germany, signs of corporate financial strain continue to pile up: distress levels have jumped to 14.8%, from 10% two years earlier; 40% of firms are classified as lacking robustness, and 21.5% as lacking performance.

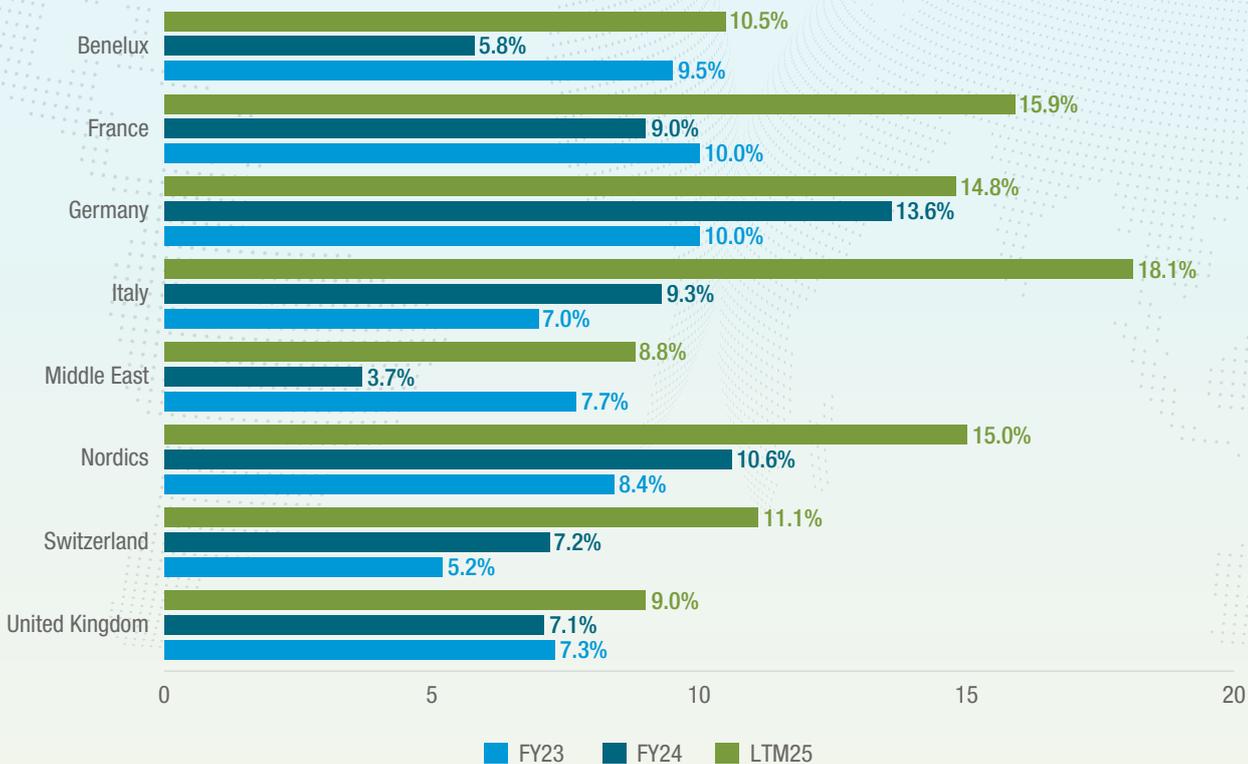
Even if the country avoided a technical recession in 2025, its economy remains stuck in a prolonged period of stagnation following two consecutive years of contraction. Large export-oriented industries like manufacturing, automotive and chemicals, once the country's growth engine, continue to grapple with deep structural headwinds, now exacerbated by US tariffs and the broader volatility in global trade policy. Longstanding challenges include persistently high energy costs, a shortage of skilled labour, excessive bureaucracy and elevated corporate taxes comparatively with other European countries.

At the sector level, Specialised Retail<sup>1</sup> and Business Services firms are among the most distressed in Germany, reflecting secular shifts in consumer behaviour and the transition to cloud and Software as a Service (SaaS) business models, respectively. Automotive, industrial equipment, real estate and chemical businesses also continue to face pressures, according to our observations and client discussions.

The outlook is marginally more positive as the government's special budget stimulus is expected to start to feed through to the economy. However, bureaucratic bottlenecks and weak demand may limit the pace at which it translates into real economic activity, which could prolong the pressure on Germany corporates in the near term.

### Distress levels by country

Percentage of companies classified as distressed



<sup>1</sup> Specialised Retail includes retailers in sub-sectors such as Consumer Electronics, Household Products, Drug Retail, Home Furnishings, among others.



## FRANCE

France once again ranks among the top distressed markets, with 16% of firms classified as distressed and 41% lacking robustness, one of the highest across countries assessed.

In 2025, businesses failures remained at a record level, with more than 68,000 judicial insolvency proceedings initiated (+3.5% vs 2024).<sup>2</sup> Pressure has intensified in structurally vulnerable sectors, notably Healthcare and Specialised Retail.

This trend is unfolding within a persistently unstable geopolitical and macroeconomic environment, compounded by structurally adverse operating conditions: pressured margins, rising energy costs, exposure to increasing variable interest rates, accrued international competition, and uncertainty surrounding budget and fiscal policies. The lengthening of companies' payment terms, with average payment delays now reaching 14 days, has exacerbated liquidity pressures.

In parallel, household consumption has weakened, driven by elevated precautionary savings linked to uncertainty and the sustained increase in fixed costs. This dynamic has particularly affected companies with a high dependency on discretionary consumer demand.

While the upward trend in business failures moderated in the final quarter of 2025, suggesting a potential stabilisation in 2026, significant risks remain. A key concern is the approaching repayment deadline for the majority of State-Guaranteed Loans (PGE) granted during the Covid crisis, which falls in summer 2026. This maturity wall is likely to accelerate financial stress on already fragile companies, potentially triggering a new wave of restructurings and insolvency proceedings.

<sup>2</sup> [https://www.cnajmj.fr/wp-content/uploads/2026/01/CNAJMJ\\_Bilan-annuel-2025-des-procedures-collectives-et-des-procedures-de-prevention.pdf](https://www.cnajmj.fr/wp-content/uploads/2026/01/CNAJMJ_Bilan-annuel-2025-des-procedures-collectives-et-des-procedures-de-prevention.pdf)



## UK

In the UK, corporate distress has continued to rise, with 9% of companies now classified as distressed, up from 7% a year earlier.

The share of businesses experiencing deteriorating earnings has also jumped sharply, from 9.8% in 2024 to 16%. Meanwhile, one in three UK companies lacks sufficient balance-sheet robustness, leaving them more exposed to cash-flow pressure and refinancing risks. Distress levels remain particularly elevated in consumer-facing sectors including Fashion Retail (33%), as well as Healthcare (16.7%).

Significant rises in employment tax and the minimum wage from April 2025, combined with heightened uncertainty ahead of the Autumn Budget, weighed heavily on both consumer and business confidence last year, straining corporates across the board but particularly those reliant on discretionary consumer spending.

Looking ahead, additional pressure is anticipated in 2026, as early indicators suggest the economy is struggling to regain momentum. Household spending and the labour market have both worsened since Chancellor Rachel Reeves announced additional tax rises in the November budget.<sup>3</sup> Ongoing restrictive fiscal policy amid elevated public borrowing costs may constrain spending and demand further, amplifying challenges for UK businesses.

<sup>3</sup> <https://www.bloomberg.com/news/articles/2026-01-14/early-data-hint-at-uk-economy-struggling-to-rebound-after-budget>



## ITALY

Distress has increased sharply in Italy, with Fashion Retail, Automotive and Media, Entertainment and Media Services the sectors struggling the most.

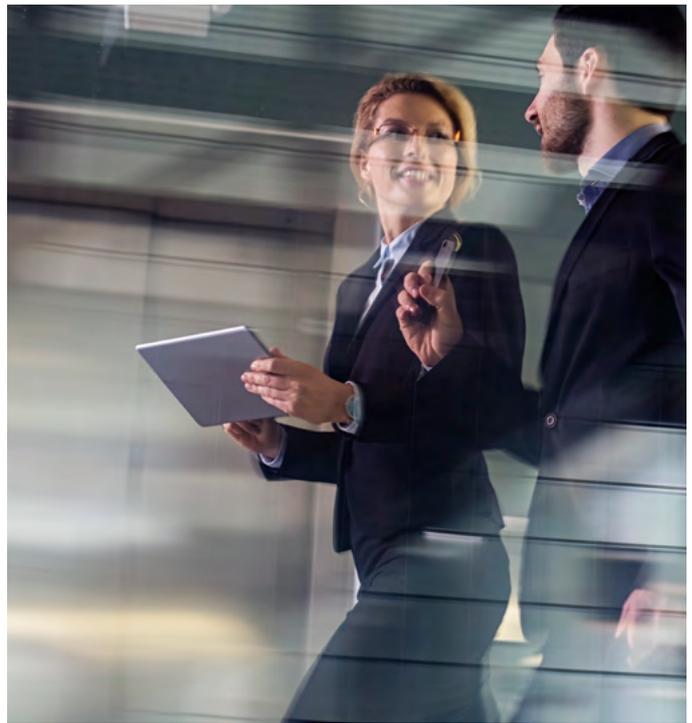
In retail, sector dynamics are largely shaped by the declining spending power of Italian households, which continues to weaken demand. The competitive environment is particularly difficult for smaller players, as the market is increasingly dominated by a limited number of large operators. Rising labour and raw material costs add further pressure on margins and weigh on the broader economy.

In automotive, the transition from internal combustion to electric powertrains has triggered deep structural disruption. The rise of lower-cost Chinese entrants has intensified competitive pressure, contributing to multiple restructuring cases and significantly impacting domestic suppliers due to reduced production volumes. European EV regulations are adding another layer of complexity, while traditional OEMs are exerting increasing pressure on their supply chains.

# 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 analyses data from over 64,000 companies with over €20 million of annual revenues across 33 countries in Europe and the Middle East. This edition focuses on approximately 4,500 companies that have consistently reported full-year financial results between 2022 and 2024, and half-year or quarterly financials through November 2025.



## HOW A&M CAN HELP

A&M has the most comprehensive suite of services to help companies and their stakeholders through challenging times.

Our 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.



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