

BCG Transform & Special Situations Index 2024 -TSS Index-

Europe





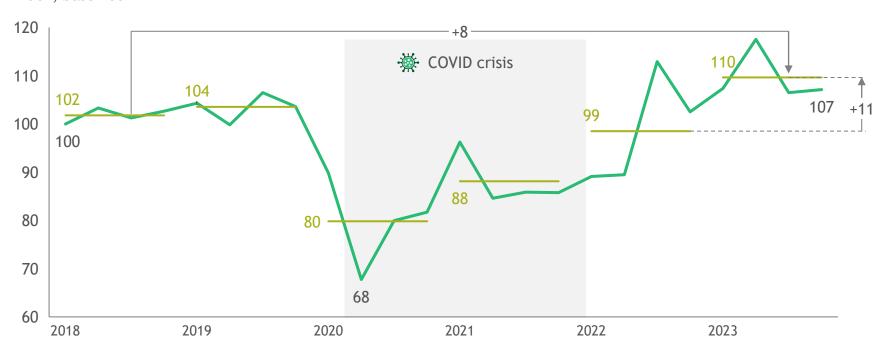
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+11pp in insolvencies over last year in European Union, above pre-COVID level

Insolvency filings: Q1 2018 through Q4 2023

Indexed development of the number of insolvencies (2018 at 100), seasonally adjusted, European Union

Index, base 100



Index — Yearly average

+11pp

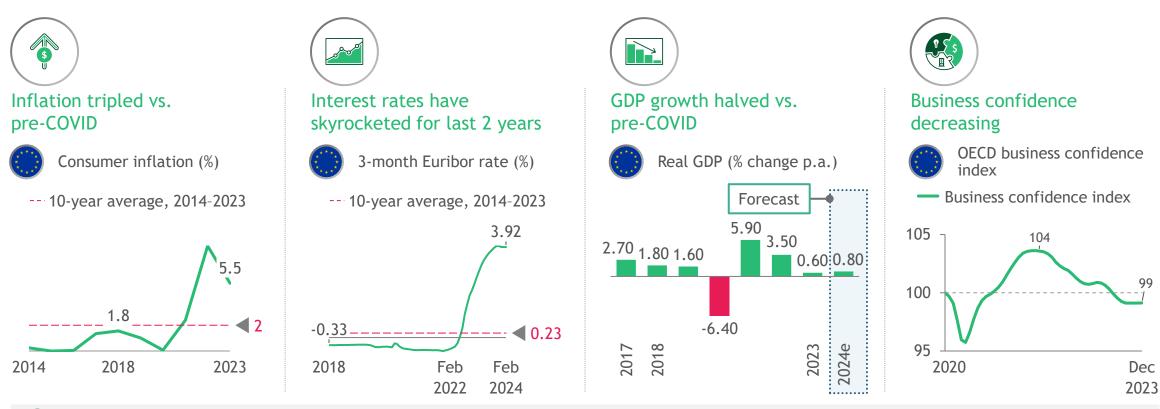
insolvencies 2023 vs. 2022



insolvencies vs. pre-COVID period

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Continuing macroeconomic headwinds suggest that transformation and restructuring pressures will stay strong in the next 24 months



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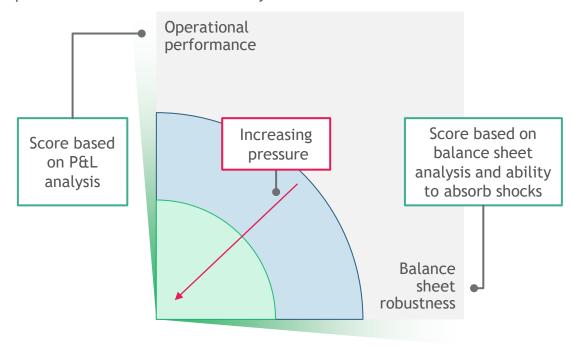
Geopolitical instability: conflicts and tensions in Eastern Europe, Middle East, and Asia; >50% of worldwide population electing new government in 2024

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BCG Transform and Special Situations (TSS) Index identifies companies showing signs of weak operational performance and undercapitalization

Transformation and restructuring pressures by sector

Assessment of about 2,000 European public companies and analysis of 12 performance and financial stability KPIs



Restructuring pressure

2 Forward-looking view

Assessment of sector dynamics based on Al-powered sentiment analysis and insights from sector experts



Al-powered sentiment analysis to synthesize insights from market and company documents (including earnings calls transcripts) and all publicly available materials



Targeted in-depth interviews with industry experts



200+ European executives surveyed on their perspectives, priorities, and challenges for 2024

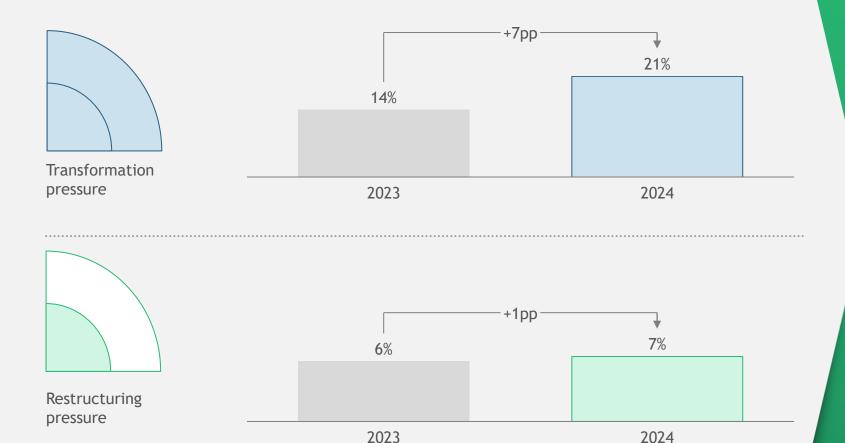
Note: Transformation pressure—initial signs of weakening operational performance and financial stability require optimization. Restructuring pressure—clear signs of weak or negative operational performance and undercapitalization require more structural steps to recover.

Source: BCG analysis.

Transformation pressure

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Significant uptick in transformation and restructuring pressures in 2024



Note: The BCG Transform and Special Situations Index reflects the revenue share of companies showing signs of operational challenges and financial instability compared with the total revenues of all companies under review. This weighting has been done to better reflect the importance and impact of the pressured companies in the sample than a pure counting of companies would do.

Sources: S&P Capital IQ; BCG analysis.

About 1 in 5
European companies
face significant
transformation
pressure

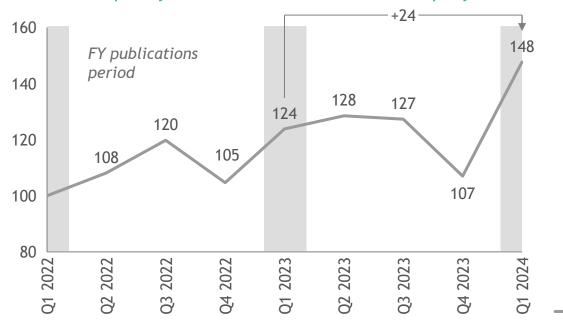
About 1 in 15
European companies
face significant
restructuring
pressure

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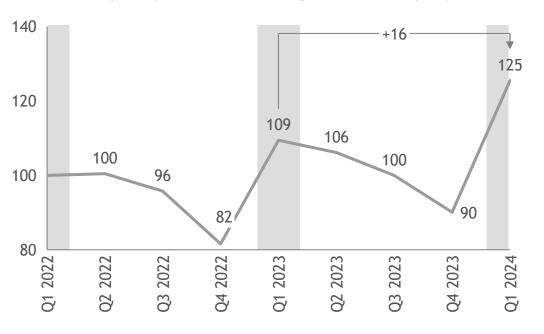
Al-powered sentiment analysis shows transformation and restructuring topics currently gaining momentum in company narratives, about 15pp to 25pp vs. 2023

Development of transformation and restructuring citations in public company documents Q1 2022 through Q1 2024, index, base 100 = Q1 2022

Relative frequency¹ of transformation-related company talks



Relative frequency¹ of restructuring-related company talks

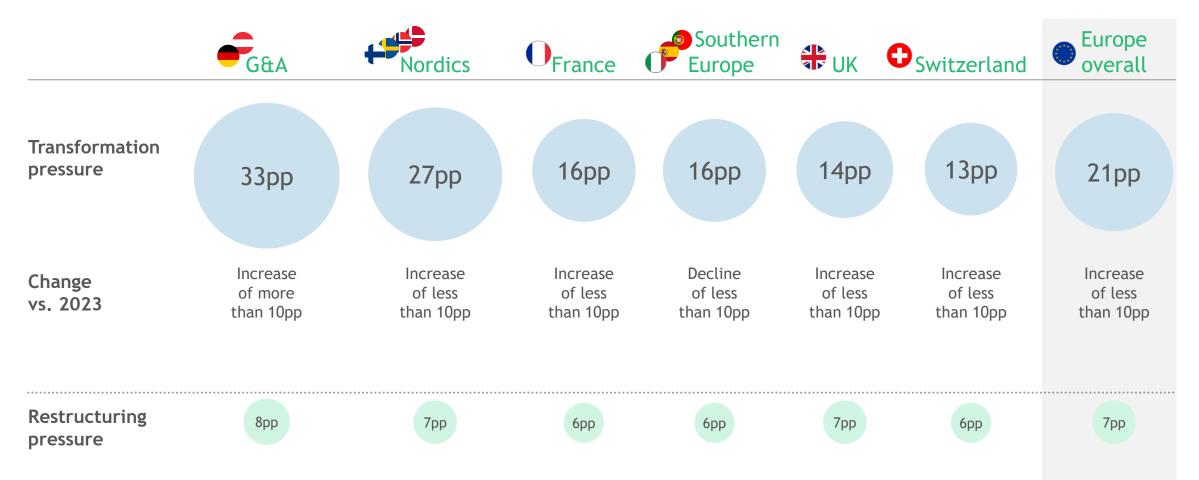


^{1.} AlphaSense trend score (based to 100 for Q1 2022), smoothed quarterly data, calculated based on all publicly available documents (company documents, research documents, transcripts) in France, UK, Germany, Austria, Switzerland, Italy, Spain, Portugal, Denmark, Sweden, Norway, and Finland. Sources: AlphaSense; BCG analysis.

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Strong transformation and restructuring pressure in Europe, particularly in Germany, Austria, and the Nordic countries



Note: pp = percentage point. Southern Europe companies Italy, Portugal and Spain, the Nordics comprise Denmark, Finland, Norway and Sweden Source: S&P Capital IQ, BCG analysis

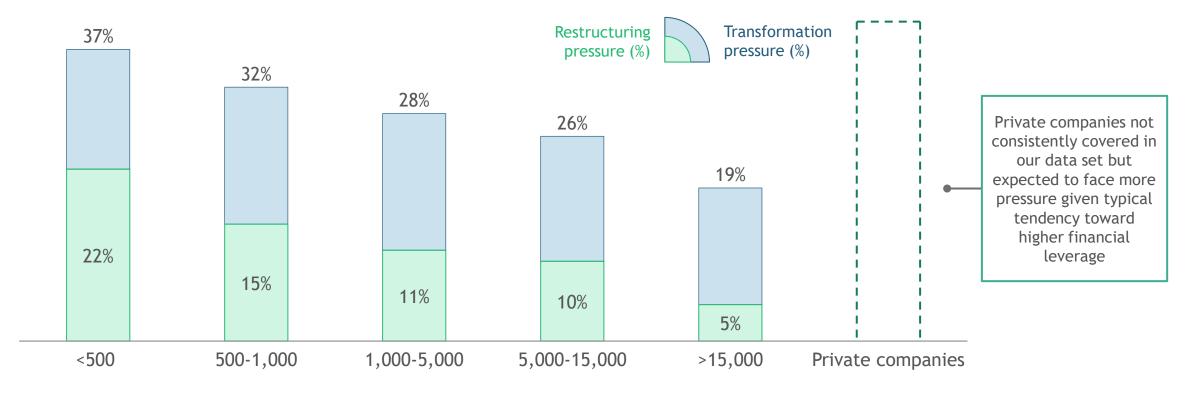


Transformation and restructuring pressures decrease with company size

More than one in three companies with revenue under €500 million face transformation pressures vs. one in five companies with revenue greater than €15 billion

Transformation and restructuring pressures per company size

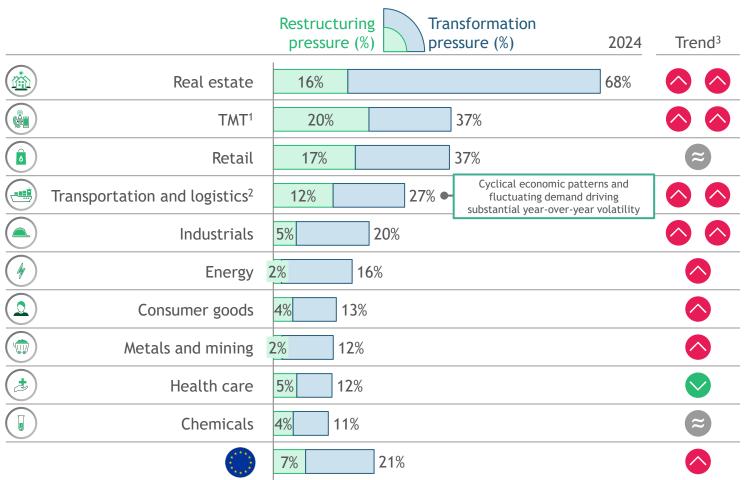
2024 revenue (€millions)



Public companies

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Real estate, TMT, and retail appear as the most pressured sectors



^{1.} TMT = technology, media, and telecommunications. 2. Including leisure and tourism. 3. Transformation pressure evolution vs. 2023; <±10pp = single arrow and ≥±10pp = double arrows. Sources: S&P Capital IQ; BCG analysis.

See next pages for deep dives into four of the largest and most pressured sectors









Real estate

Key figures

68% (vs. 26% in 2023

Restructuring pressure



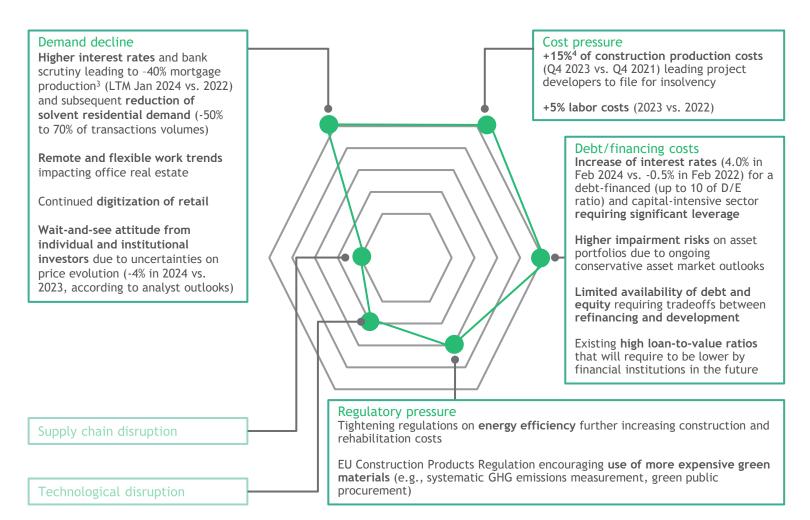
Transformation pressure

Restructuring and transformation topics¹





Key trends and challenges in Europe



- 1. Relative frequency of restructuring and transformation topics via public citations. 2. Comparing Q1 2023 with Q1 2024.
- 3. France, Germany, Spain, and Italy as proxy. 4. EU construction producer costs index. Sources: S&P Capital IQ; AlphaSense; Banque de France; Eurostat; MSCI Real Assets; Refinitiv; BCG analysis and BCG expert views; BCG crisis radar.



Telecommunications

Key figures

37% (vs. 19% in 2023

Restructuring pressure



Transformation pressure

Restructuring and transformation topics¹



Top executive views³

vs. 34% in

Worried about uncertain economic outlook

vs. 18% in

Worried about human capital and talent accessibility



vs. 10% in

Have margin enhancement as their top priority for 2024

Key trends and challenges in France

Demand decline

Inflationary pressure on both households' and companies' expenses leading to decrease in telecom spending

Risk of commoditization of telecom business driving operators to differentiate (e.g., bundling content into a unique offering with external partnerships)

Supply chain disruption

Persistent global shortage of chips and rare earths

Technological disruption

Improvement of network efficiency through Al and GenAl already game changing; long-term implications still uncertain

Continued expansion of connectivity. 5Genabled use cases—including autonomous vehicles—and 6G future rollout (from 2030)

Increased cybersecurity threats

Cost pressure

Inflation pressure on high fixed cost base (e.g., energy costs for energy intensive telecom networks, labor costs)

Move from revenue growth and differentiation to cost avoidance leading to consolidation tendencies to leverage network synergies

Debt/financing costs

Increase of interest rates (4.0% in Feb 2024 vs. -0.5% in Feb 2022) in conjunction with high capex requirements for network upgrades (e.g., fiber and 5G) or development (buying of frequency bands) with unclear return on investment

Separation of telco into NetCo and **ServCo** entities to increase attractiveness for investors

Regulatory pressure

Enforcement of EU Gigabit Infrastructure Act first step toward a single market for telecom industry to maintain EU competitiveness

Ongoing talks to create network fees for technology companies to reduce cost pressure on telecom companies and allow further investments

1. Relative frequency of restructuring and transformation topics via public citations. 2. Comparing Q1 2023 with Q1 2024.

3. From TMT executives (technology, media, telecommunications).

Note: Key figures, restructuring and transformation topics, and top executive views sections for TMT. Sources: S&P Capital IQ, AlphaSense; BCG analysis and BCG expert views; BCG C-Suite survey 2024.



Media

Key figures

37% (vs. 19% in 2023

Restructuring pressure



Transformation pressure

Restructuring and transformation topics1



Top executive views³

vs. 34% in

Worried about uncertain economic outlook

vs. 18% in

Worried about human capital and talent accessibility



vs. 10% in

Have margin enhancement as their top priority for 2024



Key trends and challenges in Europe

Demand decline Cost pressure Nonlinear consumption of media Drop in advertising revenue (-20% to content driving sectorial 30% vs. last year) for TV and transformation with traditional **newspapers**, adding pressure on players/broadcasters losing market profitability share vs. digital players Tipping point reached with main cost **Inflationary pressure** leading to: savings already achieved, requiring a review of operating model (e.g., Decrease of household outsourcing) and/or a look for discretionary spending in media consolidation/partnerships to leverage and entertainment cost synergies at local and European levels Decrease of advertising spending for companies Debt/financing costs Paradigm shift in competitive Capex requirements to produce environment with arrival of own content and drive international players (e.g., GAFAM) in differentiation (e.g., for traditionally local markets broadcasters) with European media relying more and more on national production vs. US Supply chain disruption Regulatory pressure (Antitrust) regulation slowing down Technological disruption consolidations/partnerships for maintaining Ongoing challenge on monetization model the competitiveness of European players in with increase share of digital media an extended competitive environment AI and GenAI allowing (digital and international) Enhanced productivity for key functional functions (e.g., content Intent of recent EU initiatives (e.g., Digital Markets Act) to limit the dominance of big production for marketing) tech and deter anticompetitive conduct Hyperpersonalization and targeting for advertising-currently undergoing stress Challenges on content censorship and testing throughout Europe

- 1. Relative frequency of restructuring and transformation topics via public citations. 2. Comparing Q1 2023 with Q1 2024.
- 3. From TMT executives.

Note: Key figures, restructuring and transformation topics, and top executive views sections for TMT. Sources: S&P Capital IQ; AlphaSense; BCG analysis and BCG expert views; BCG C-Suite survey 2024.

related regulation for media players

37% (≈) vs. 37% in 2024

Restructuring pressure



Transformation pressure

Restructuring and transformation topics1



Top executive views³

vs. 29% in

Worried about inflation and rising interest rates

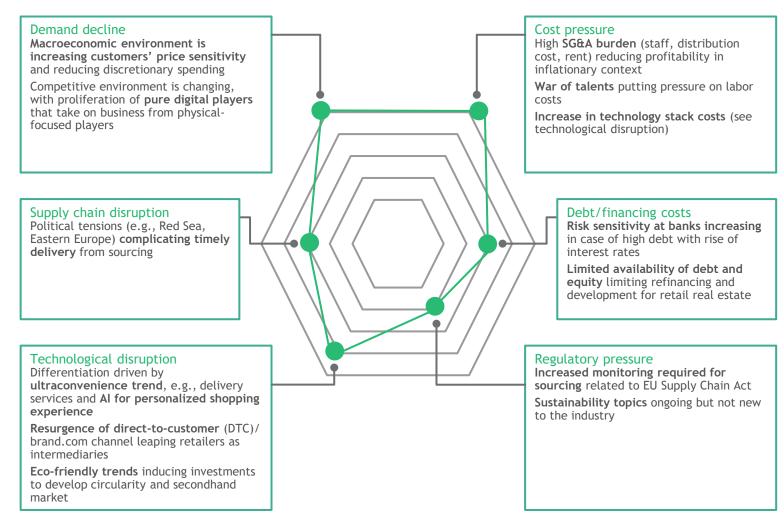
Considering labor cost actions as very important to remain competitive

vs. 14% in

Have volume improvement as their top priority for 2024



Key trends and challenges in Europe



- 1. Relative frequency of restructuring and transformation topics via public citations.
- 2. Comparing Q1 2023 with Q1 2024. 3. From consumer sector, including retail. Sources: S&P Capital IO: Alphasense: BCG analysis and BCG expert views; BCG C-Suite survey 2024.



Industrials

Key figures

20% (vs. 8% in 2023

Restructuring pressure



Transformation pressure

Restructuring and transformation topics1



Top executive views

vs. 34% in

Worried about uncertain economic outlook

vs. 18% in

Worried about impact of cost of energy



Key trends and challenges in Europe

Demand decline

Continued competition from BRICS players leading to overcapacity in several segments

Economic uncertainties and weak GDP growth (<1%) deterring companies to invest and spend money in industrial goods

Supply chain disruption

Reshoring topic trending as building up a resilient supply chain is becoming compulsory to cope with geopolitical conflicts

Persistent global shortage of some components, including chips and rare earths

Technological disruption

Full-scale impact of GenAl and sustainability imperative still uncertain but likely to disrupt several industrial segments

Increased risk from cybersecurity incidents

Cost pressure

Persistent gap in energy costs vs. US and Asia driving competitive disadvantage

Continued inflation on key cost centers, including:

- Fluctuating raw materials
- +5% labor costs in 2023 vs. 2022, expected to remain high over next vears
- Volatile energy costs (highly sensitive)

Debt/financing costs

Sharp increase of financing costs given high capital intensity and relatively high leverage ratio for industrial companies

Deteriorated access to financing for some traditional manufacturers as banks and investors increase ESG requirements

Regulatory pressure

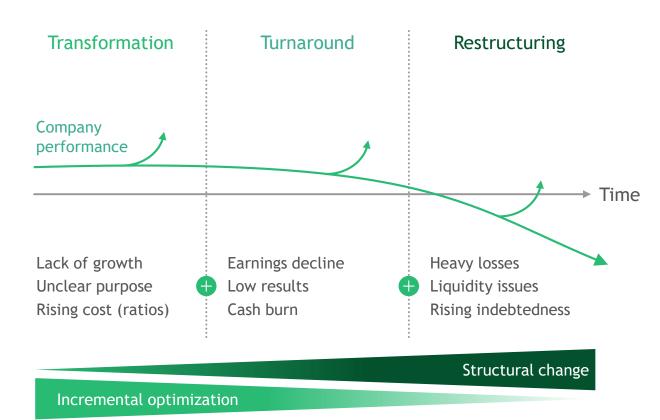
EU Green Deal (net zero by 2050) increasing required investments from industrial companies; higher burden for small- and mid-cap companies

Increased monitoring required for sourcing related to EU Supply Chain Act

1. Relative frequency of restructuring and transformation topics via public citations. 2. Comparing Q1 2023 with Q1 2024. Sources: S&P Capital IQ; AlphaSense; BCG analysis and BCG expert views; BCG C-Suite survey 2024.

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BCG Transform assists companies for transformation, turnaround, and restructuring



Typical transformation offering



Full potential plan (FPP)

FPP development includes cost efficiency, NWC optimization, and CTO offering



Execution support/transformation office (TO)

Aligning, monitoring, and steering large-scale transformation programs

Typical special situations offering



IBR/restructuring opinions

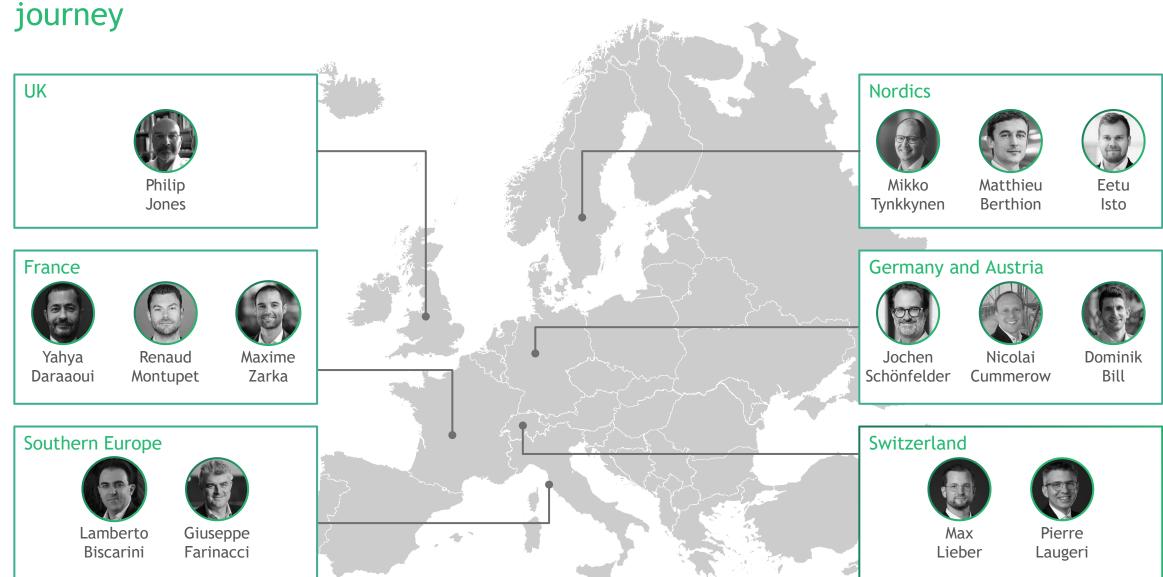
Creating new and/or validating existing restructuring programs



Cash office

Establishing 13-week as well as midterm liquidity planning and actively managing cash

Source: BCG.



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Source: BCG.



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