

BCG Transform & Special Situations Index 2024 -TSS Index-

Germany and Austria





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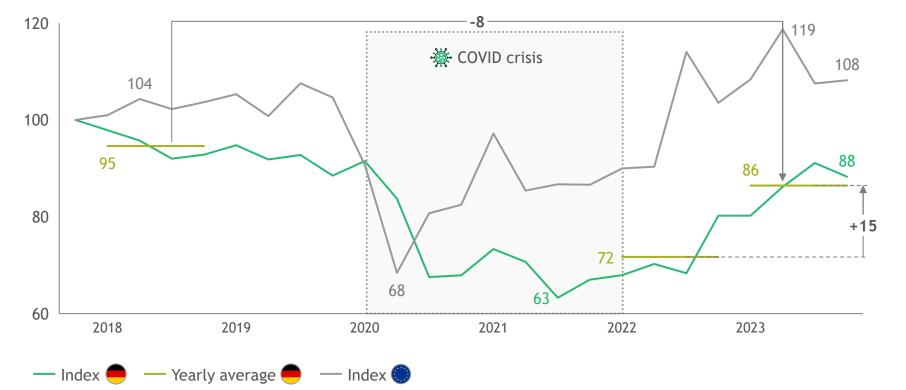
Insolvencies up +15pp over last year, but still below pre-COVID level

Insolvency filings: Q1 2018 through Q4 2023

Indexed development of the number of insolvencies (2018 at 100)

Germany as proxy for Germany and Austria

Index, base 100



Note: StaRUG = Gesetz über den Stabilisierungs- und Restrukturierungsrahmen für Unternehmen (Act on the Stabilization and Restructuring Framework for Companies).

Sources: Eurostat; International Monetary Fund; BCG analysis.



insolvencies 2023 vs. 2022

insolvencies vs. pre-COVID period

- Insolvency level in Germany below pre-COVID level (-8% in 2023 vs. 2018), but seeing a surge for last year (+15% in 2023 vs. 2022)
- > StaRUG law facilitating preinsolvency restructuring, reducing liquidation occurrences since early 2021
- Due to industry-driven and export-focused economy, Germany is exposed to macroeconomic headwinds, suggesting challenges for next two years (2024 GDP growth forecast of +0.3% below EU level of +1.0%)



insolvencies in 2023

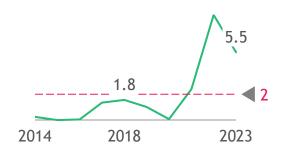
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Continuing macroeconomic headwinds suggest that transformation and restructuring pressures will stay strong in the next 24 months

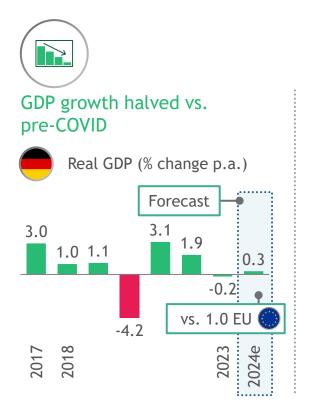


Consumer inflation (%)

-- 10-year average, 2014-2023









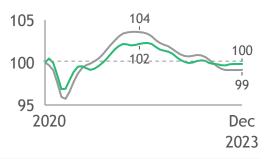
Business confidence decreasing



OECD business confidence index

Business confidence France

Business confidence index EU





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



Industry-driven and export-focused (>50% of GDP) economy; decarbonization of energy sector

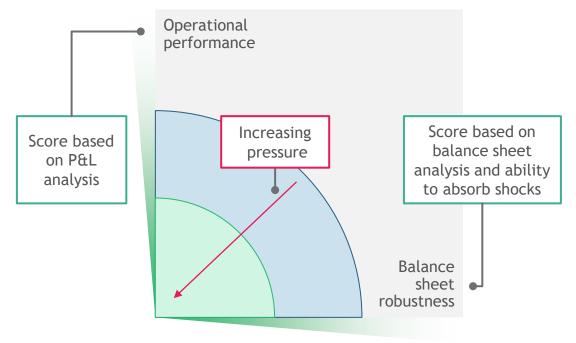
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BCG Transform and Special Situations (TSS) Index identifies companies showing signs of weak operational performance and undercapitalization

1 Transformation and restructuring pressures by sector

Transformation pressure

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 AI-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

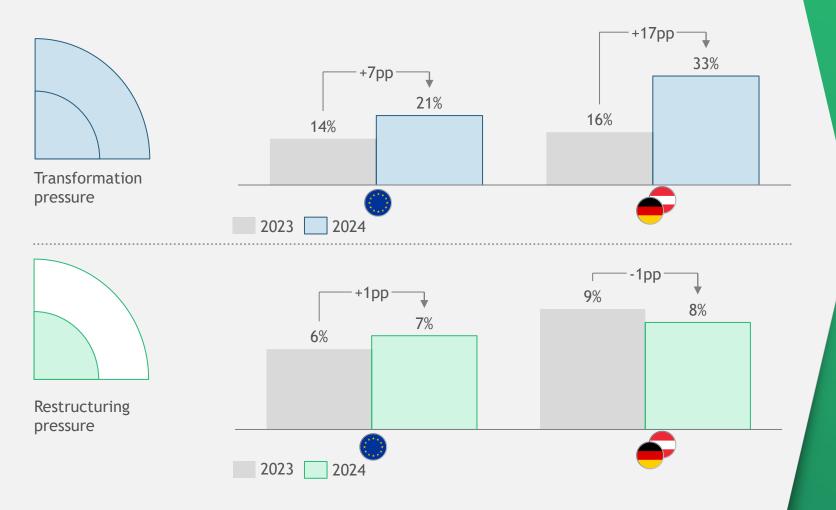


200+ European executives surveyed on their perspectives, priorities, and challenges for 2024

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 increased by 17pp to 33%—significantly above European average

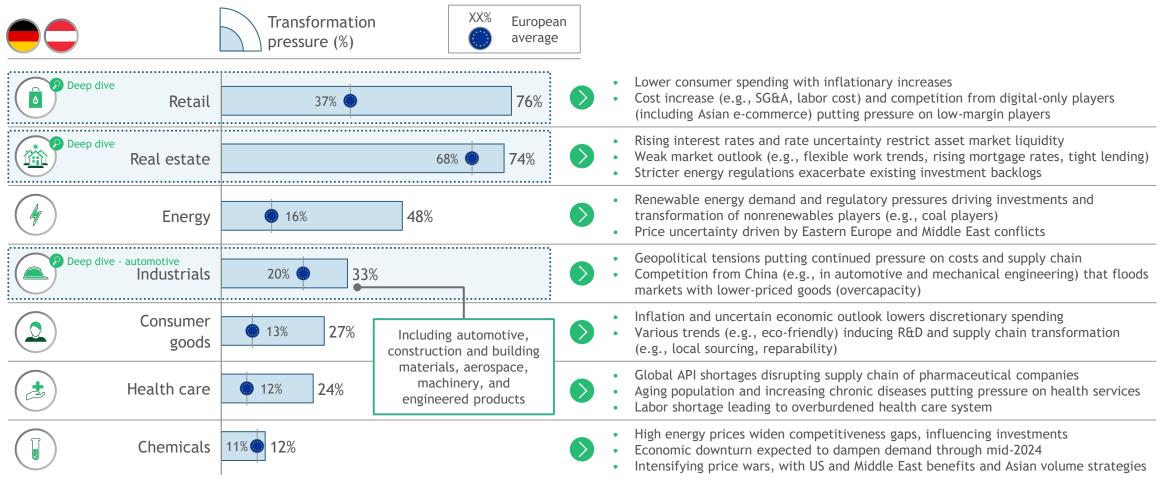


About 1 in 3 companies face significant transformation pressure in Germany and Austria

About 1 in 12 companies face significant restructuring pressure in Germany and Austria

Note: The BCG Transform and Special Situations Index is based on share of revenue. Sources: S&P Capital IQ, BCG analysis.

Retail, real estate, and industrials (especially automotive) see strong transformation pressure



Note: Sectors with ten or more companies in scope and above European average. API = active pharmaceutical ingredient. Health care and chemicals still have robust balance sheets. Sources: S&P Capital IQ; AlphaSense; BCG analysis.

Key figures

74% (vs. 18% in 2023



Transformation pressure

Restructuring and transformation topics¹



Demand decline

Higher interest rates and bank scrutiny leading to -40% mortgage production (LTM Jan 2024 vs. 2022) and subsequent reduction of solvent residential demand (-60% of transactions volumes in 2023 vs. 10-year historical average)

Remote and flexible work trends impacting office real estate

Continued digitization of retail

Wait-and-see attitude from individual and institutional investors due to uncertainties on price evolution (-10% since mid-2022, -4% in 2024, according to analyst outlook)

Supply chain disruption

Technological disruption

Debt/financing costs

+5% labor costs (2023 vs. 2022)

Cost pressure

(Q4 2023 vs. Q4 2021)

Increase of interest rates (4.0% in Feb 2024 vs. -0.5% in Feb 2022) for a debt-financed (up to 10 of D/E ratio) and capital-intensive sector requiring significant leverage

+15% of construction production costs

Higher impairment risks on asset portfolios due to ongoing conservative asset market outlooks

Limited availability of debt and equity requiring tradeoffs between refinancing and development

Existing high loan-to-value ratios that will require to be lower by financial institutions in the future

Regulatory pressure

Tightening regulations on energy efficiency further increasing construction and rehabilitation costs

EU Construction Products Regulation encouraging **use of more expensive green materials** (e.g., systematic GHG emissions measurement, green public procurement)

1. Relative frequency of restructuring and transformation topics via public citations. 2. Comparing Q1 2023 with Q1 2024. 3. EU construction producer costs index.

Sources: S&P Capital IQ; AlphaSense; Banque de France; Eurostat; MSCI Real Assets; Federal Statistical Office of Germany; Cushman & Wakefield; BCG analysis and BCG expert views; BCG crisis radar.

Industrials

Key figures

33% (vs. 6% in 2023



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 Germany and Austria

Demand decline Cost pressure Continued competition from BRICS Persistent gap in energy costs vs. US and players leading to overcapacity in several Asia driving competitive disadvantage segments Continued inflation on key cost centers, Economic uncertainties and weak GDP including: growth (<1%) deterring companies to Fluctuating raw materials invest and spend money in +5% labor costs in 2023 vs. 2022. industrial goods expected to remain high over next Volatile energy costs (highly sensitive) Supply chain disruption Reshoring topic trending as Debt/financing costs building up a resilient supply chain Sharp increase of financing costs is becoming compulsory to cope given high capital intensity and with geopolitical conflicts relatively high leverage ratio for industrial companies Persistent global shortage of some components, including chips and Deteriorated access to financing rare earths for some traditional manufacturers as banks and investors increase ESG requirements Technological disruption Regulatory pressure Full-scale impact of GenAl and **EU Green Deal** (net zero by 2050) sustainability imperative still uncertain increasing required investments from but likely to disrupt several industrial industrial companies; higher burden for small- and mid-cap companies segments Increased risk from cybersecurity Increased monitoring required for sourcing related to EU Supply Chain Act incidents

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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Transformation pressure

Restructuring and transformation topics¹



Top executive views³

41%

vs. 34% in

Worried about uncertain economic outlook

25%

vs. 18% in

Worried about impact of cost of energy



vs. 8% in

Have R&D as their top priorities for 2024



Key trends and challenges in Germany and Austria

Demand decline

Slowing down of sector growth due to modest demand for new vehicles combined with a deceleration of EV transition (partial overcapacity)

Increase of competition intensity with new Chinese entrant, especially in the lower-priced EV segment (price competition) expected to reach 15%-20% of market share by 2030

Supply chain disruption

Risk management approach and ESG regulations driving reshoring

Geopolitical tensions affecting the availability of crucial automotive parts and materials (e.g., semiconductor shortage not yet fully resolved)

Technological disruption

Arrival of **tech companies** in the field of autonomous driving and smart car (e.g., new smart EV Xiami SU7, Google's AV project Waymo) putting pressure on historical players

Transformation need for **combustion-focused automotive suppliers** remaining high

Cost pressure

Inflation driving cost pressure (e.g., labor cost, steel), combined with labor shortages

Footprint considerations requiring to amend pure efficiency improvements programs

E-mobility transformation slowdown increasing pressure on OEMs with no payback on large investments yet

Debt/financing costs

Continued technological investments requiring financing (e.g., connected car features, advanced battery management)

Risk sensitivity at banks increasing in case of high debt with rise of interest rates

Regulatory pressure

Uncertainty around **EV adaptation and regulation** and corresponding investments in production/R&D

Strict requirements in some countries: ICE powertrain bans and requirements for circular materials

Supply Chain Act enforcement to protect human rights along value chain

- 1. Relative frequency of restructuring and transformation topics via public citations.
- 2. Comparing Q1 2023 with Q1 2024. 3. From industrials goods sector, including automotive. Sources: S&P Capital IQ; AlphaSense; BCG analysis and BCG expert views; BCG crisis radar, February 2024; BCG virtual automotive roundtable; BCG C-Suite survey 2024.



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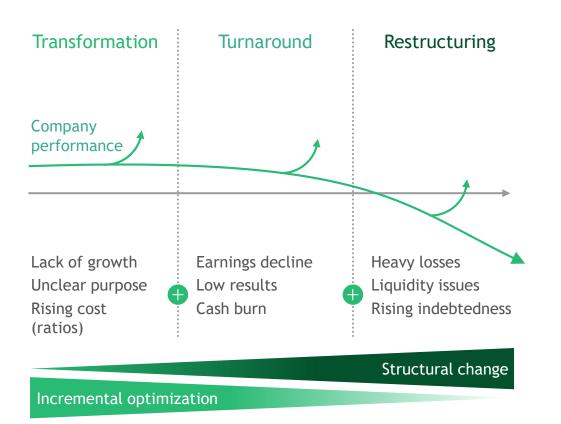


Nicolai Cummerow Managing Director & Partner Stuttgart



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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



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