

BCG Transform & Special Situations Index 2024 -TSS Index-

United Kingdom



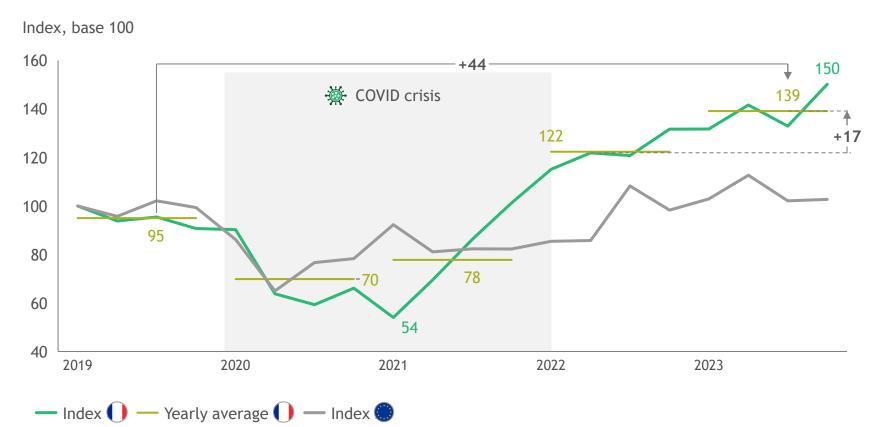


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+17pp in insolvencies over last year in the UK, well above pre-COVID level and European average

Insolvency filings: Q1 2019 through Q4 2023

Indexed development of the number of insolvencies (2019 at 100)



1. CIGA = Corporate Insolvency and Governance Act 2020.

Sources: Eurostat; Insolvency Service, monthly insolvency statistics for England and Wales, January 2024; International Monetary Fund; BCG analysis.



insolvencies 2023 vs. 2022

insolvencies vs. pre-COVID period

- End of UK's abundant support during the COVID-19 pandemic (16.7% of GDP for equity, loans, and guarantees, second highest in Europe) leading to a surge in insolvencies, surpassing 2019 level since 2022
- High slowdown of GDP growth and Brexit, resulting in uncertainty driving continuous increase in insolvencies over the past two years, above EU average
- Restructuring Plan introduced by CIGA¹ in 2020: well-received by large companies, limited penetration within SMEs and not slowing down insolvency growth yet

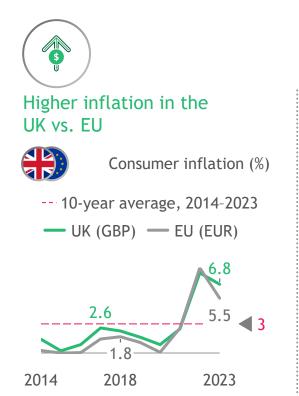


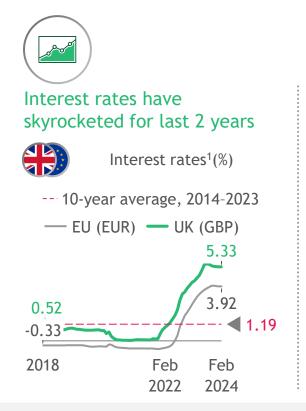
~25K

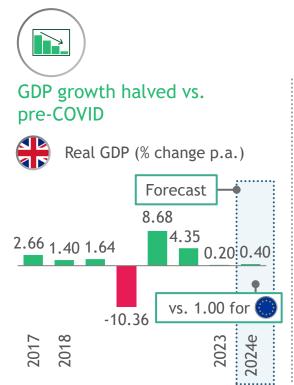
insolvencies in 2023

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Continuing macroeconomic headwinds suggest that transformation and restructuring pressures will remain high in the next 24 months







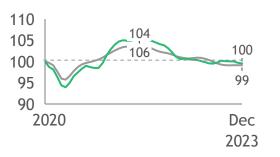


Business confidence decreasing



OECD business confidence index

- Business confidence UK
- 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



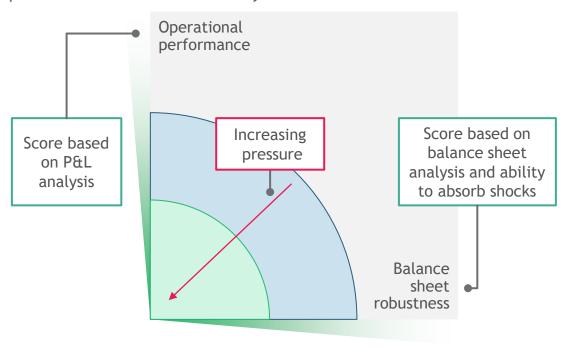
Industry-driven and export-focused (>50% of GDP) economy; decarbonization of energy sector

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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

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



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

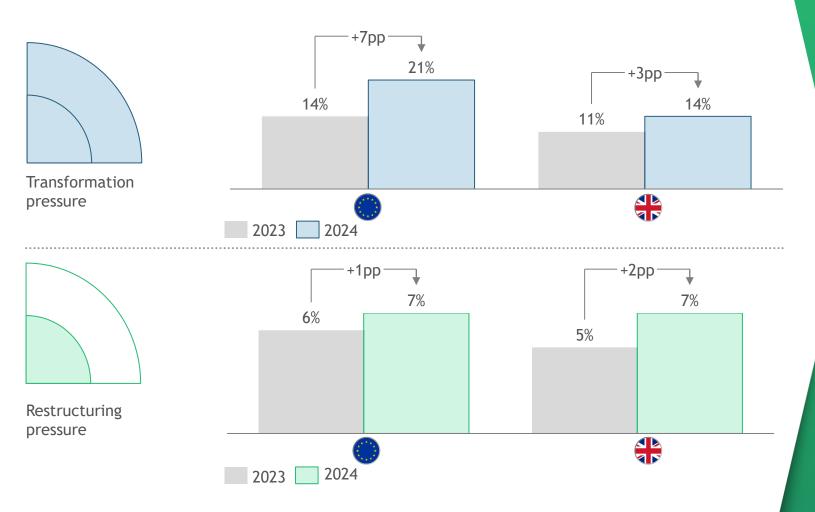
Transformation pressure Restructuring pressure

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.

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+3pp increase in transformation pressure; UK close to European average for restructuring pressure



About 1 in 7 companies face significant transformation pressure in the UK

About 1 in 14 companies face significant restructuring pressure in the UK

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

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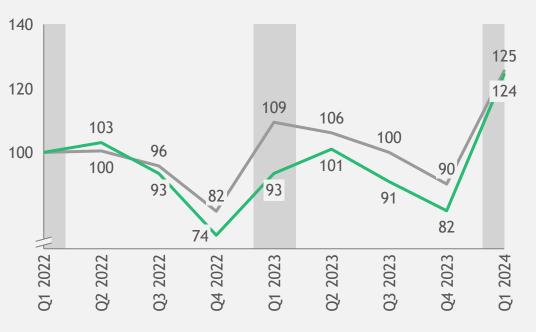
AI-powered sentiment analysis shows transformation and restructuring topics are currently gaining momentum, on a par with European average

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

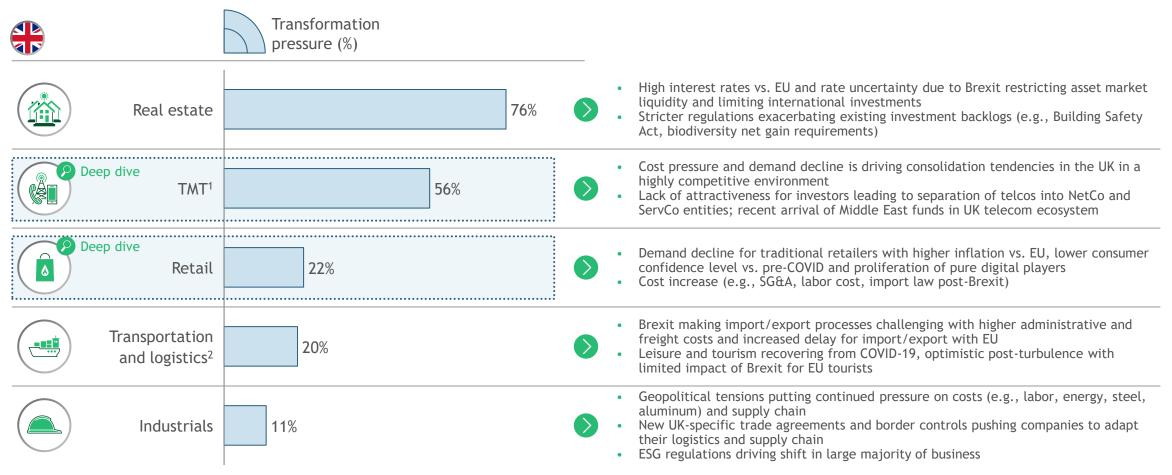


Relative frequency¹ of restructuring-related company talks



^{1.} AlphaSense trend score (based to 100 for Q1 2022), calculated based on all publicly available documents (company documents, research documents, transcripts), smoothed quarterly data. Sources: AlphaSense; BCG analysis.

Real estate, TMT, and retail face strong transformation pressure



^{1.} TMT = technology, media, and telecommunications. 2. Including leisure and tourism.

Note: Top five sectors.

Sources: S&P Capital IQ; BCG analysis.

Key figures

56% (vs. 16% in 2023



Transformation pressure

Restructuring and transformation topics²



Top executive views

vs. 34% in

Worried about uncertain economic outlook

vs. 18% in

Worried about human capital and talent accessibility for their company



vs. 10% in

Have margin enhancement as their top priority for 2024



Key trends and challenges in the UK

Demand decline

Nonlinear consumption of media content inducing sectorial transformation with traditional players/broadcasters losing market share vs. digital players (e.g., GAFAM) and OTT services

Inflationary pressure on both households' and companies' expenses leading to decrease of media and telecom spending, with higher inflation vs. EU (6.8% vs. 5.3%)

Risk of commoditization of telecom **business** driving operators to look for differentiation (e.g., bundling content into unique offering with external partnerships)

Supply chain disruption

Technological disruption

Al and GenAl game-changing impact

- Improvement of telecom network efficiency
- Hyperpersonalization of content for marketing/advertising for media players

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)

Moving from revenue growth to cost avoidance leading to consolidation tendencies in media and telecommunications industries and divestures on unprofitable entities

Debt/financing costs

Increase of interest rates (5.3% in Feb 2024 vs. 0.2% in Feb 2022) in conjunction with high capex requirements for network upgrades (e.g., rollout of FTTH in the UK below EU average) or development (buying of frequencies) with unclear return on investment

Lack of attractiveness for investors leading to separation of telcos into NetCo and ServCo entities: recent arrival of Middle East funds in UK telecom ecosystem

Regulatory pressure

CMA competition regulator investigating current consolidation within telecom market

Dominance of GAFAM in cloud services pushing Ofcom⁴ to investigate to protect and UK consumers rights

1. TMT = technology, media, and telecommunications. 2. Relative frequency of restructuring and transformation topics via public citations. 3. Comparing Q1 2023 with Q1 2024. 4. UK regulator (Office of Communications). Sources: S&P Capital IO: AlphaSense: BCG analysis and BCG expert views: BCG C-Suite survey 2024.

Retail

Key figures

22% (vs. 19% in 2023



Transformation pressure

Restructuring and transformation topics¹



Top executive views

vs. 29% in

Worried about inflation and rising interest rates

vs. 54% in

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 the UK

Demand decline

Macroeconomic environment increasing customers' price sensitivity and reducing discretionary spending with higher inflation vs. EU (6.8% vs. 5.3%)

E-commerce surge (>25% of retail sales) reflecting the change of consumer behavior and competitive environment with proliferation of pure digital players that take on business from physical-focused players

Among digital players, accrued competition with China gaining market share over local players

Supply chain disruption

Political tensions (e.g., Red Sea, Eastern Europe) complicating timely delivery from sourcing

New UK-specific trade agreements and border controls pushing companies to adapt their logistics and supply chain

Technological disruption

Differentiation driven by ultraconvenience trend, e.g., delivery services and Al for personalized shopping experience

Resurgence of direct-to-customer (DTC)/brand.com channel leaping retailers as intermediaries

Cost pressure

High SG&A burden (staff, distribution cost, rent) reducing profitability in inflationary context

War of talents putting pressure on labor costs

Debt/financing costs

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

Brexit creating uncertainty for future investors

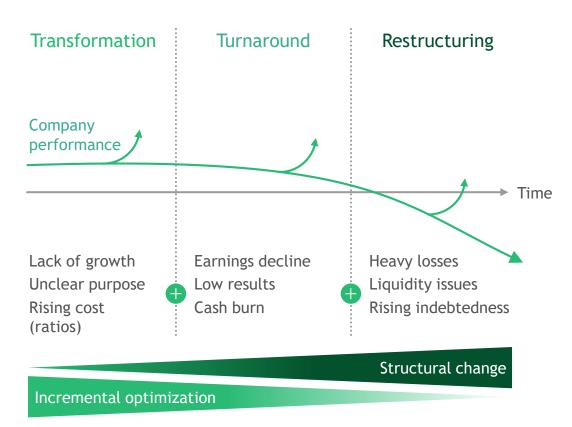
Limited availability of debt and equity limiting refinancing and development for retail real estate

Regulatory pressure

Adherence to UK-specific regulations post-Brexit adding compliance costs for retailers, especially in food and goods



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

Your BCG special situations local experts to assist you along your journey



Philip Jones
Partner & Associate Director
London



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