

THE WEIL EUROPEAN DISTRESS INDEX

The background of the slide features a dark blue gradient. Overlaid on this is a complex, abstract pattern of light blue and white. It consists of numerous thin, wavy vertical lines that create a sense of movement. Superimposed on these lines is a grid of small dots, which are also slightly offset or wavy, giving the overall effect a digital or data-driven appearance.

EXECUTIVE SUMMARY

- Corporate distress across key European markets rose to their highest level this year according to the inaugural Weil European Distress Index.
- Unprecedented stimulus measures by European Governments and central banks in response to the pandemic have begun to unwind, resulting in tighter conditions for liquidity. The contribution to distress from liquidity has not been higher since the global financial crisis in 2008-09.
- Ongoing pressure on profitability, which peaked during the early stages of the pandemic, remains a significant source of distress. It has remained under pressure for 28 consecutive months as a series of lockdowns, supply chain disruptions and rising operating costs erode margins across various industries.
- The largest driver of distress in the latest data (October 2021) came from businesses operating within the 'Travel, Leisure & Hospitality' sector, driven by ongoing pressure from profitability.
- 'Retail & Consumer Goods' companies were shown to be the next most distressed sector, seeing levels of distress rise sharply over the last six months following the removal of government supportive measures, labour shortages and challenges with supply.
- UK corporates experienced the highest levels of relative distress during the pandemic compared with other markets. But levels of distress did not test the heights seen during the Global Financial Crisis in 2008-09. Since the pandemic peak in April 2020, distress fell sharply as government measures supported liquidity, working capital and business confidence.
- However, distress has recently risen to its highest point this year across UK corporates as a deteriorating backdrop for both liquidity and profitability created more challenging conditions. The contribution to distress from

Weil European Distress Index Movements

Oct 2021	Oct 2020	QoQ trend	YoY trend
-1.2	+1.6	↑	↓

liquidity has not been higher since the early stages of the global financial crisis in the UK.

- Elsewhere, conditions for small corporates (market cap of less than €5bn) have worsened in recent months, with the overall small cap index showing positive signs of distress for the first time in over a year.
- Large corporates (market cap more than €25bn) fared much better, accessing a range of government supportive measures in a coordinated European Union and UK response.
- Measures were targeted to support liquidity, provide guarantees to banks, and mobilise working capital which included: government backed loans, tax reliefs, sector-specific supportive measures, fixed and low lending rates, government backed credit insurance and many other measures.
- This unprecedented response ensured that financial distress did not spread throughout European corporates expansively, although the risk from new Covid-19 variants, and associated measures to help stop the spread of the virus, remains a key risk across global economies and markets.

THE WEIL EUROPEAN DISTRESS INDEX

How do we define ‘distress’?

The Weil European Distress Index provides a measure of the level of corporate distress by aggregating company fundamentals and financial market indicators across key European countries.

Corporate distress can be defined as uncertainty about the fundamental value of financial assets, volatility and increase in perceived risk. It also refers to the disruption of the normal functioning of company financial performance, including their ability to fulfil their debt requirements.

The definition is purposely broad as corporate distress can manifest in different ways, and no two stress events are identical for each company.

Although stress events differ in composition, there are several common characteristics of corporate distress ranging from pressure on liquidity, reduced profitability, rising insolvency risk, falling valuations and reduced return on investment. These company indicators are also set against a backdrop of market conditions that can also indicate levels of distress (e.g. business confidence, rising volatility and rising levels of perceived market risk).

Methodology

The Weil European Distress Index is a univariate time series that distils information embedded in more than 16 indicators into a summary measure of corporate distress. It can then be decomposed into five markets (Total Europe*, UK, Germany, France and Spain-Italy), size of company (based on market cap) and 10 industry groups:

- Retail and consumer goods
- Travel, leisure and hospitality
- Industrials
- Healthcare
- Technology, media and telecoms
- Financial services
- Oil and gas
- Infrastructure, utilities and power
- Commodities and natural resources
- Real Estate

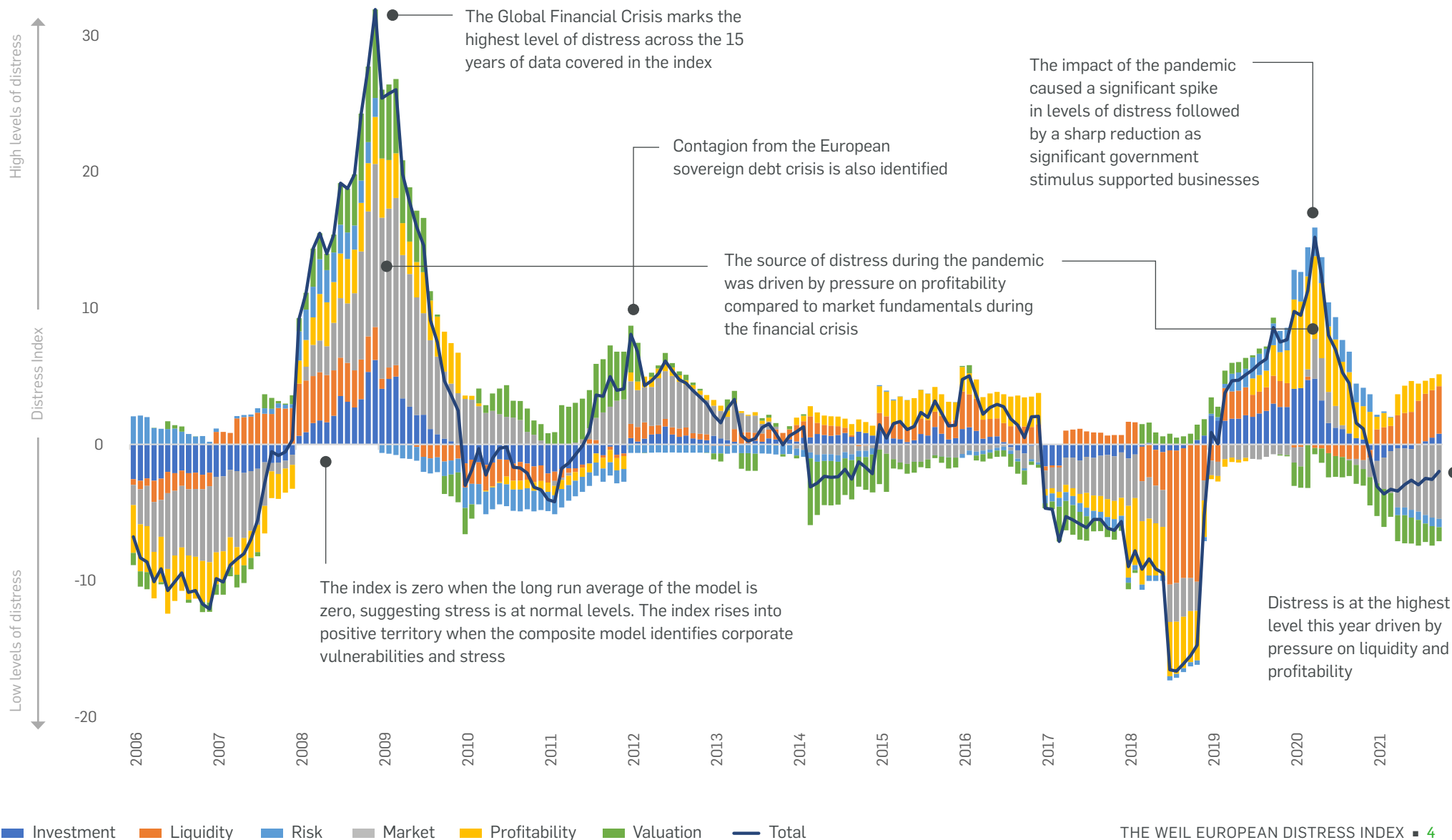
The Weil European Distress Index is constructed using data from over 3,750 listed European companies and a range of financial market indicators. 16 indicators have been used to construct the index which reflect one or more symptoms of corporate distress based on comprehensive academic and desk-based research.

The Weil European Distress Index uses a Dynamic Factor Model – a statistical approach that captures the variability across the 16 indicators in a single composite index using key company fundamentals going back to 2005, and incorporates over five million data points.

METRIC	DEFINITION
Liquidity	Contains measures of liquidity such as the current ratio, quick ratio and operating cashflow metrics which are used to determine a company's ability to pay off current debt obligations without needing to raise external capital.
Profitability	Contains measures such as return on equity, net profit margins and return on assets to assess the business's ability to generate earnings relative to its revenue, operating costs, balance sheet and shareholders' equity over time.
Risk	Contains measures such as debt to equity ratio and interest cover to assess a company's capital structure and current risk levels, often in terms of debt levels and risk of default or bankruptcy.
Valuation	Contains measures such as price to earnings, price to book value and enterprise value to EBITDA multiples, used to assess the relative valuation of a company over time.
Investment	Contains measures such as dividend per share and dividend yield used to assess the potential attractiveness of a business as an investment opportunity.
Financial markets	Contains measures such as index market capitalisation, market volatility, risk, credit default swaps and business confidence which are used to track levels of distress across broader financial markets in key European markets.

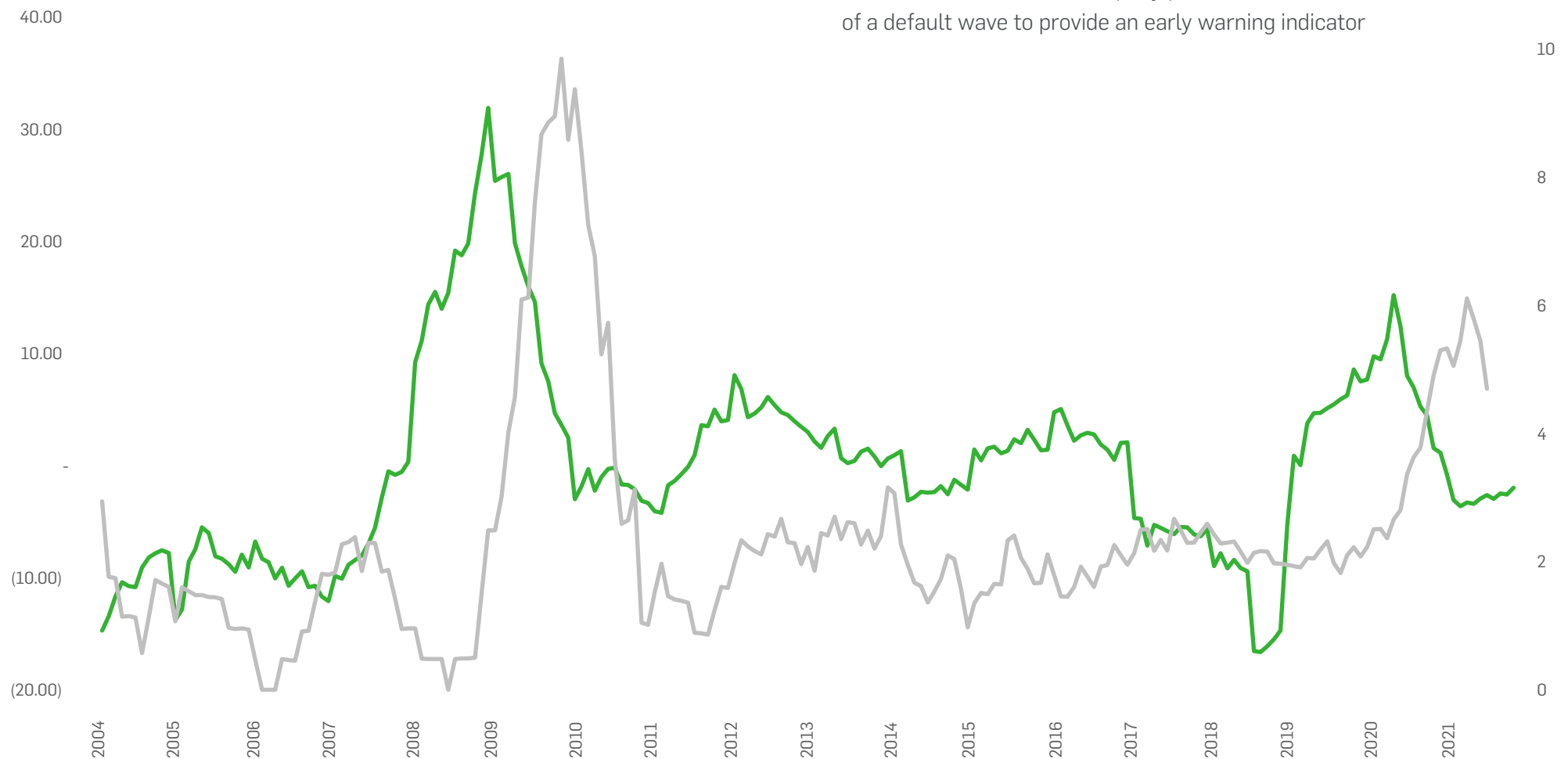
* Total Europe include UK, Germany, Spain, Italy, France, The Netherlands, Republic of Ireland, Belgium, Norway and Portugal

The European Distress Index



The Weil European Distress Index vs Default Rates

- In the two most major recent crises, the Global Financial Crisis and Covid pandemic we have observed that The Weil European Distress Index peaks in advance of the S&P European Speculative Grade Default Rate
- The Weil European Distress Index tracks the deterioration in financial markets conditions and company performance which occurs in advance of a default wave to provide an early warning indicator

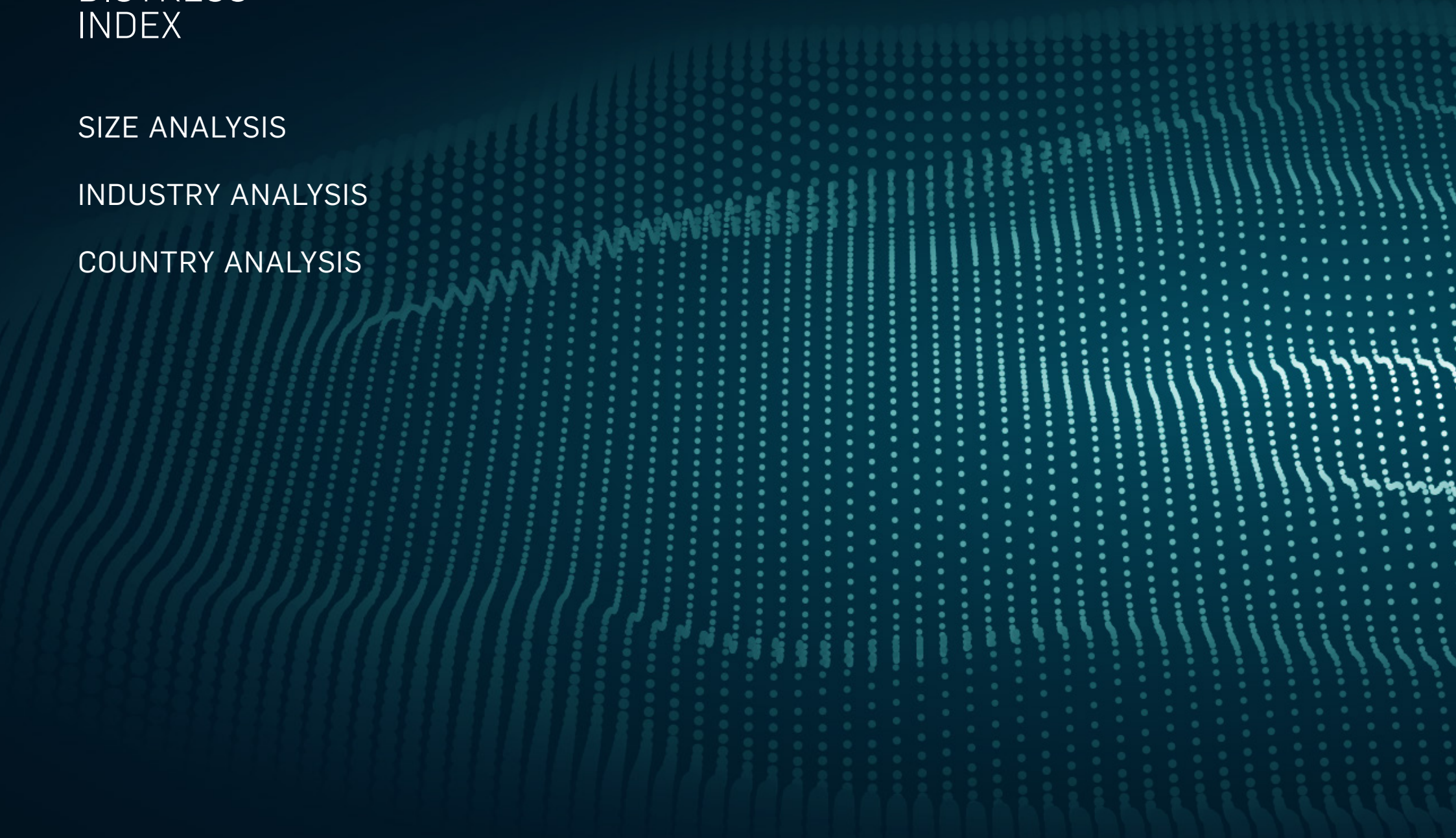


THE WEIL EUROPEAN DISTRESS INDEX

SIZE ANALYSIS

INDUSTRY ANALYSIS

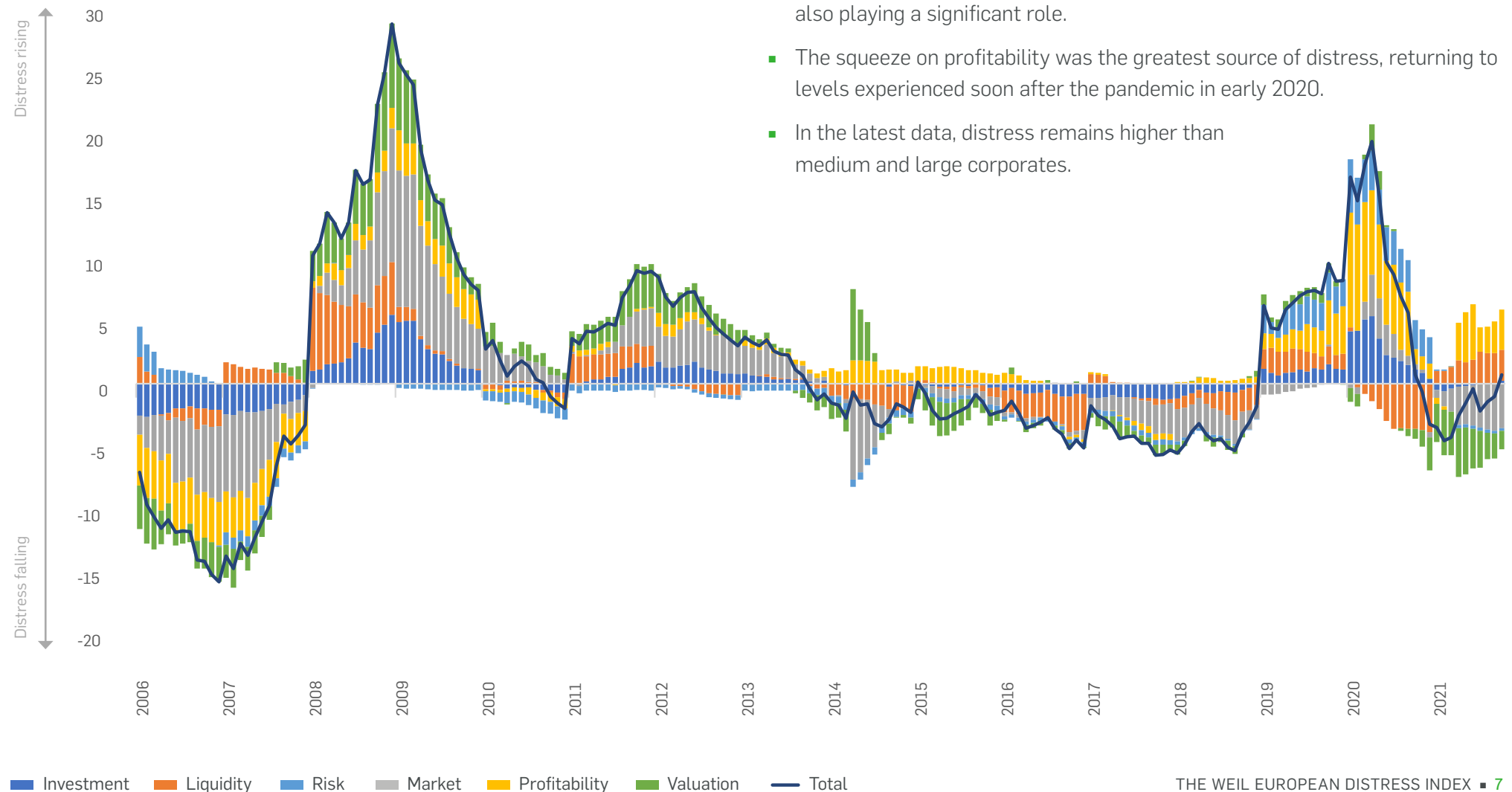
COUNTRY ANALYSIS



SIZE ANALYSIS

Small Corporates

(market cap <€5bn)

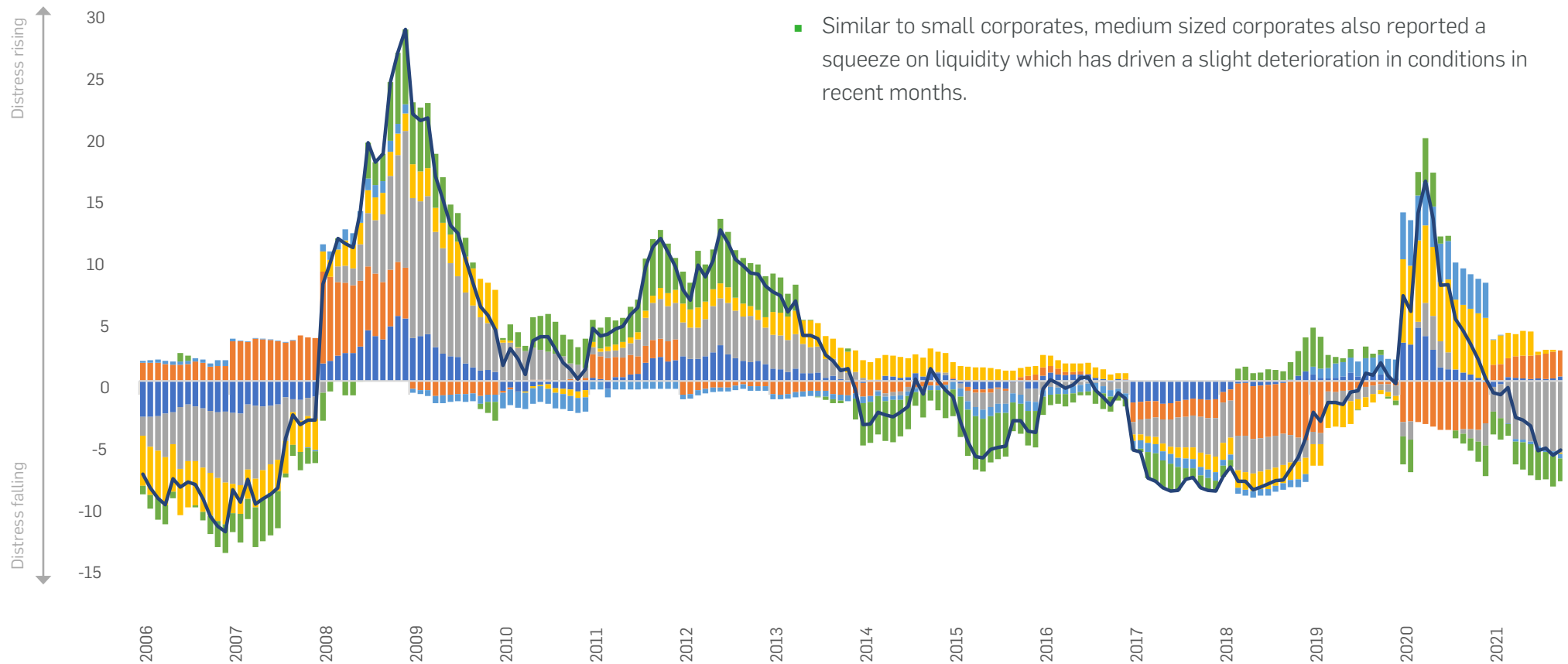


SIZE ANALYSIS

Medium Corporates

(market cap €5 – €25bn)

- Medium sized corporates experienced high levels of distress during the pandemic, but lower relative to small corporates.
- Distress during this period was driven by a shock to profitability, but access to credit ensured that liquidity remained strong.
- Levels of distress picked up marginally in October, but remain significantly lower than in the previous 12 months and during the early stages of the pandemic.
- Similar to small corporates, medium sized corporates also reported a squeeze on liquidity which has driven a slight deterioration in conditions in recent months.

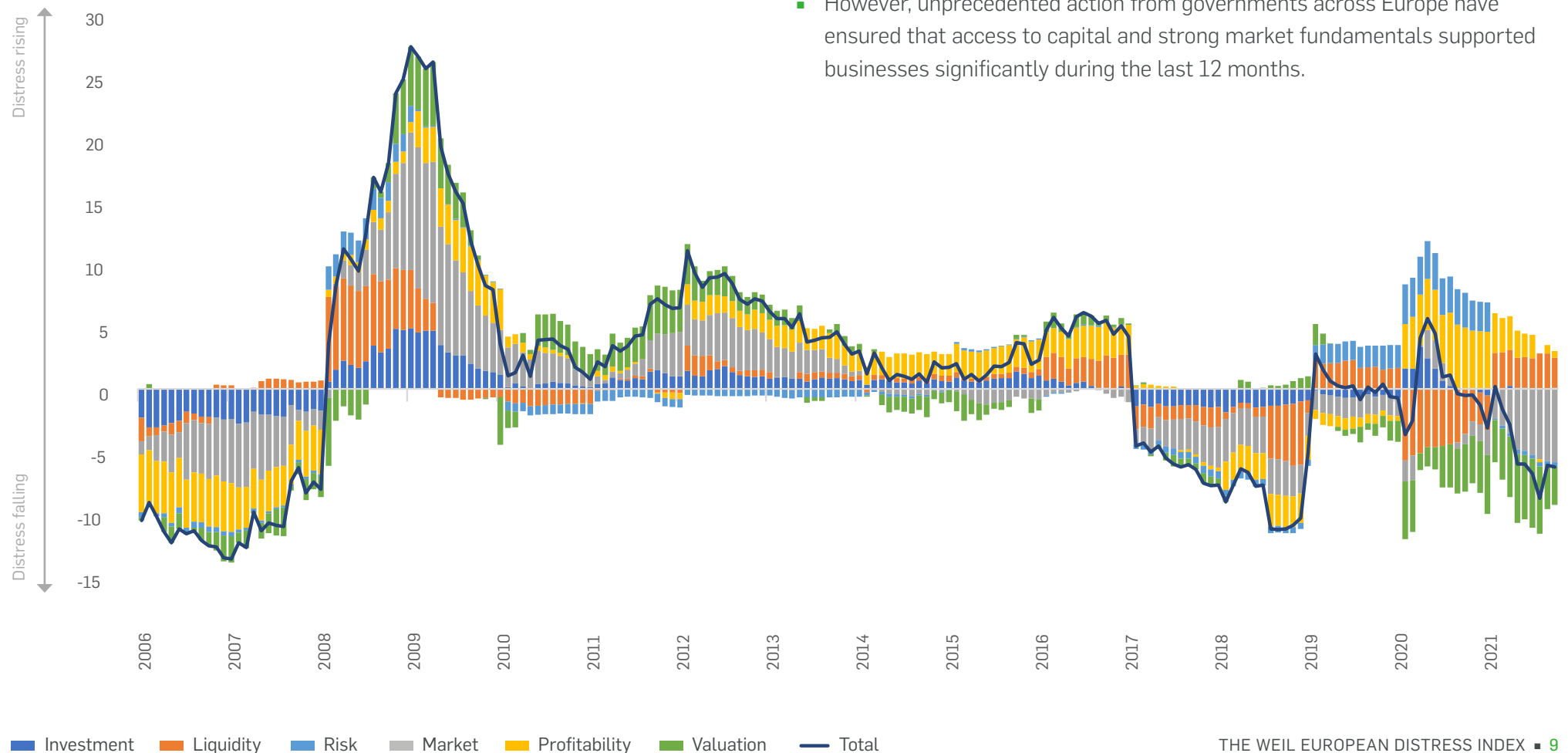


SIZE ANALYSIS






Large Corporates

(market cap <€25bn)

- Large corporates were the least impacted group throughout the pandemic, exhibiting relatively few signs of distress.
- Levels of distress for large corporates remains considerably lower than last year, driven by strong market fundamentals and buoyant valuations metrics.
- During the last 12 months, there has been increased pressure from a deterioration on liquidity while profitability remains under some pressure.
- However, unprecedented action from governments across Europe have ensured that access to capital and strong market fundamentals supported businesses significantly during the last 12 months.



Distress Index October 2021






Travel, leisure and hospitality			Retail and consumer goods			Commodities / natural resources			Oil and Gas			Real estate					
																	
Distress ranking	Index value	YoY trend	Distress ranking	Index value	YoY trend	Distress ranking	Index value	YoY trend	Distress ranking	Index value	YoY trend	Distress ranking	Index value	YoY trend			
1	+3.4	↓	2	+1.5	↑	3	+0.7	↑	4	+0.7	↓	5	-1.0	↑			
Investment	Liquidity	Market	Profitability	Risk	Valuation	Investment	Liquidity	Market	Profitability	Risk	Valuation	Investment	Liquidity	Market	Profitability	Risk	Valuation

INDUSTRY ANALYSIS

Least distressed

Most distressed



Infrastructure			Financial services			Industrials			Healthcare			Technology, media and telecoms		
														
Distress ranking	Index value	YoY trend	Distress ranking	Index value	YoY trend	Distress ranking	Index value	YoY trend	Distress ranking	Index value	YoY trend	Distress ranking	Index value	YoY trend
6	-1.2	↑	7	-1.6	↓	8	-3.4	↓	9	-6.5	↓	10	-13.5	↓
Investment	Liquidity	Market	Investment	Liquidity	Market	Investment	Liquidity	Market	Investment	Liquidity	Market	Investment	Liquidity	Market
Profitability	Risk	Valuation	Profitability	Risk	Valuation	Profitability	Risk	Valuation	Profitability	Risk	Valuation	Profitability	Risk	Valuation

INDUSTRY ANALYSIS

Travel, Leisure and Hospitality ✈️

Travel, Leisure & Hospitality was the hardest-hit sector during the pandemic seeing levels of distress surpass those seen during the financial crisis. Pressure on profitability remains the key driver of distress.



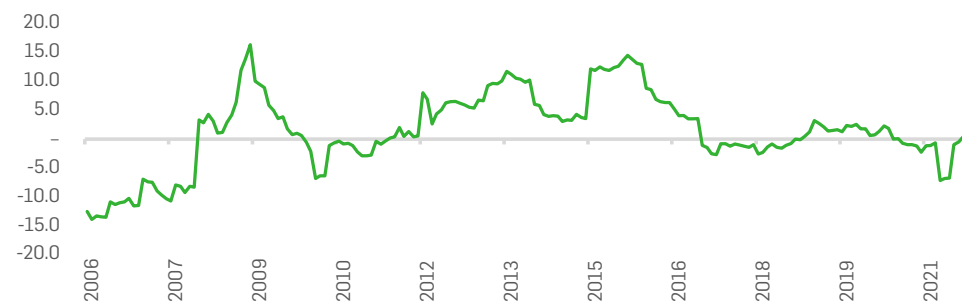
Retail and Consumer Goods 🛒

Distress across retail and consumer goods companies picked up sharply in the third quarter moving into positive territory, suggesting distress is above average levels. Renewed pressure on liquidity and profitability continue to bear down on the industry.



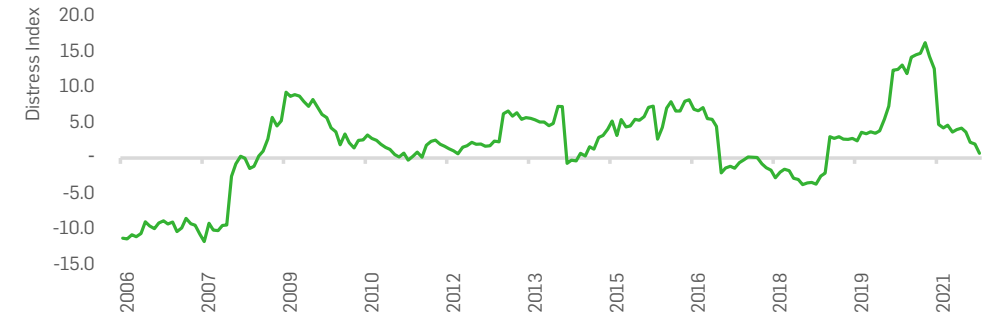
Commodities and Natural Resources ⚡

Corporate distress across commodities and natural resources rose sharply in the third quarter of 2021, up on the low levels from last year. Distress has returned to pre-pandemic levels.



Oil and Gas ⛽

Oil and gas companies have been among some of the hardest hit during the pandemic, but levels of distress fell dramatically as global lockdowns eased, boosting demand for fuels and causing a sharp rise in oil prices.



INDUSTRY ANALYSIS

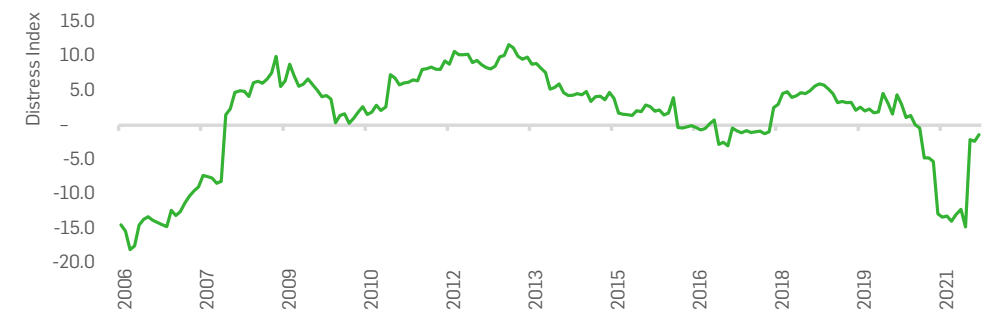
Real Estate 🏠

Real Estate companies across Europe saw little distress during the pandemic, especially when compared with the heights seen during the Global Financial Crisis. Distress remains below the long run average, but has ticked up in recent months to the highest level since May 2020.



Infrastructure 🚰

Infrastructure corporates saw levels of distress rebound sharply in the latest quarter driven by pressure on liquidity, but the index remains in negative territory indicating that distress remains below normal.



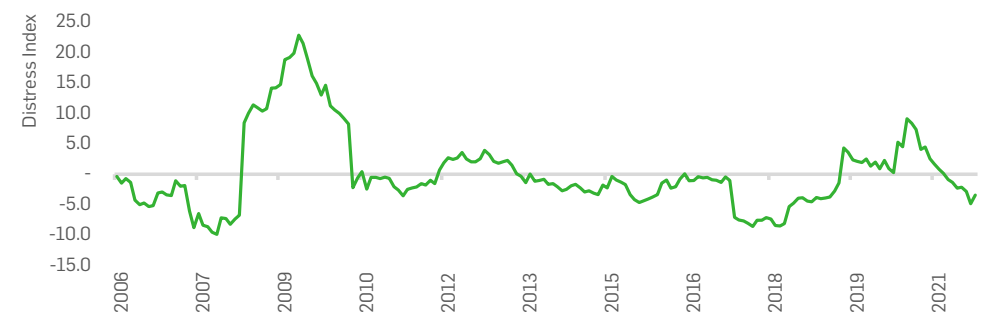
Financial Services 🏢

Distress across European financial services firms rose sharply in the last quarter, returning to long-run average levels, driven by deteriorating conditions for liquidity and reduced appetite for investment.



Industrials 📡

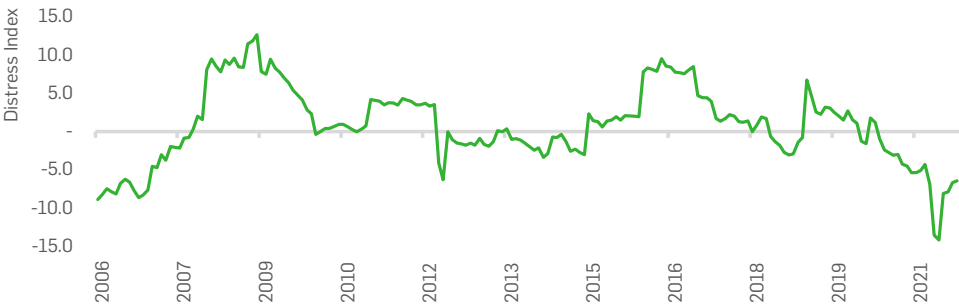
Distress across industrials fell further into negative territory in recent months as demand for a wider variety of goods from semi-conductors, autos, electronic equipment and chemicals rose sharply in reaction to the global pandemic response.



INDUSTRY ANALYSIS

Healthcare

Distress across the healthcare sector reached record lows in June 2021 as significant investment supported ongoing efforts to control the spread of Covid-19 which boosted valuations, profitability and reduced risk considerably.



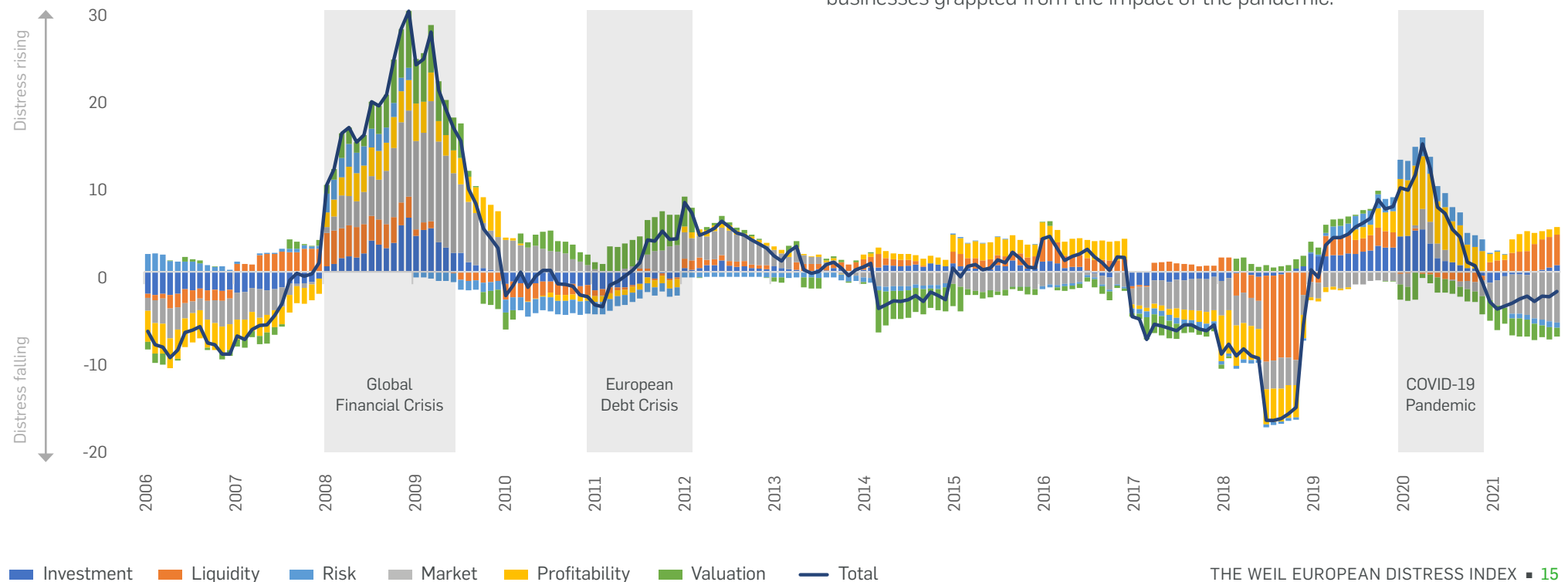
Technology, Media and Telecoms

TMT corporates have been one of the least impacted industries during the pandemic. Technological solutions to European lockdown measures have seen firms in strong demand, keeping distress low.



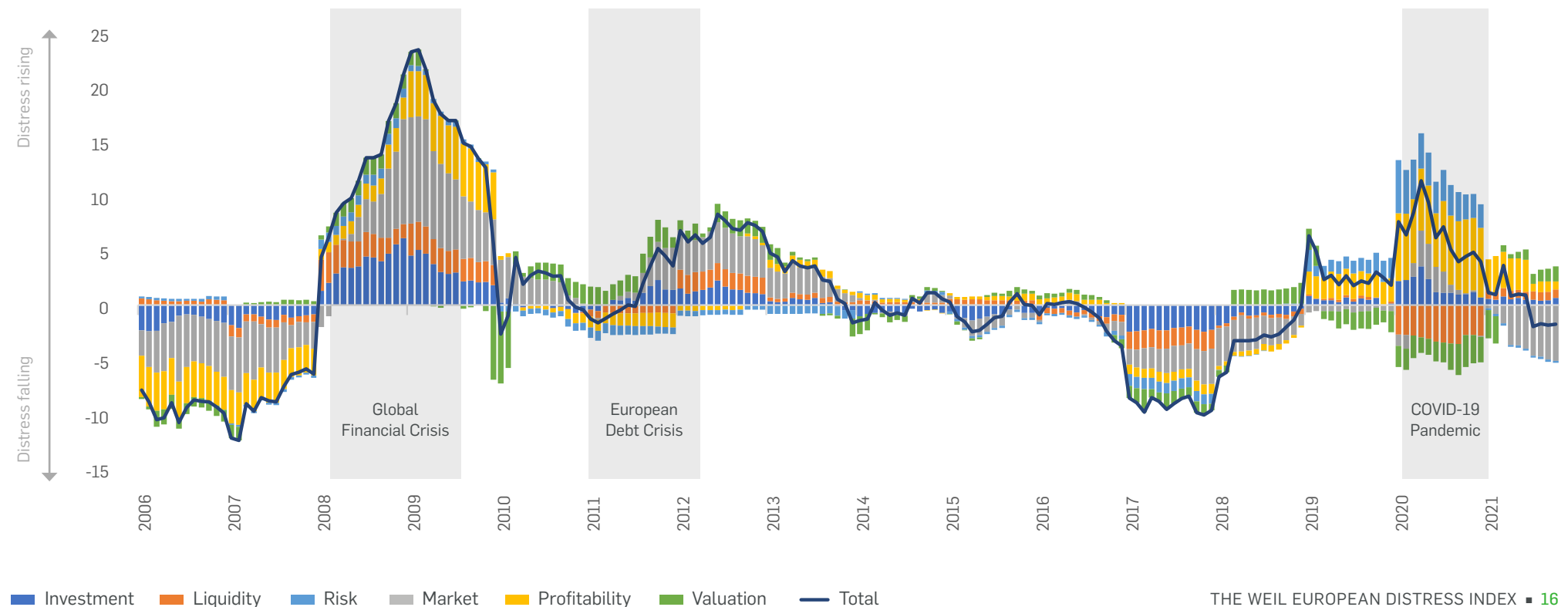
United Kingdom Distress Index

- Distress across UK-based corporates reached its highest level this year in October, driven by renewed pressure on liquidity and ongoing challenges to profitability.
- Liquidity remains under significant pressure with its contribution to distress at the highest level since the financial crisis. Companies continue to battle the squeeze on operating cash flow with the removal of government stimulus packages, the repayment of loans and rising costs beginning to bite.
- Meanwhile, pressure on profitability has continued to contribute to distress for 28 consecutive months, although falling from historic highs experienced during the early months of the pandemic.
- Overall, The Weil European Distress Index for UK corporates remained in negative territory showing that levels of distress are currently below long run averages.
- Robust market fundamentals, an appetite for risk and strong valuations ensured distress remained considerably lower than last October when businesses grappled from the impact of the pandemic.



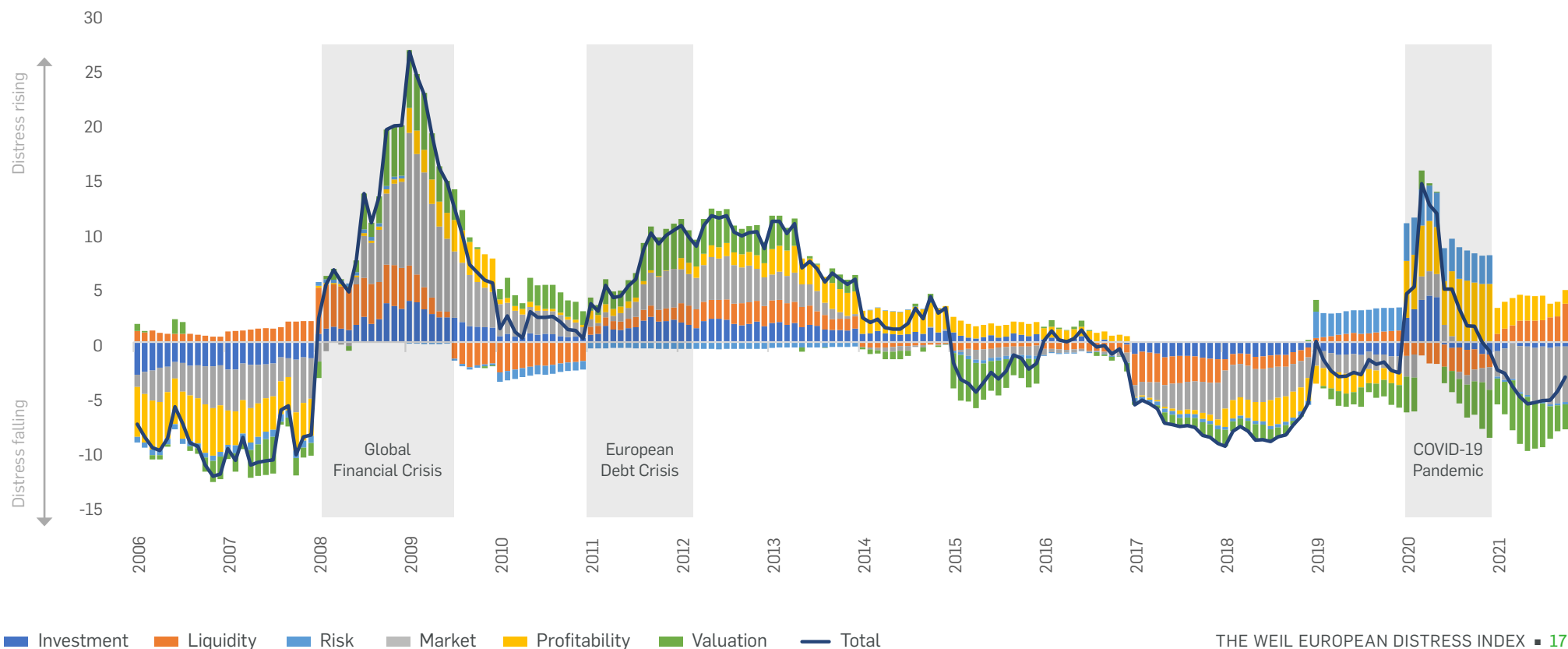
Germany Distress Index

- The Weil European Distress Index for German corporates remained in negative territory according to the latest data, falling sharply from levels experienced during the pandemic.
- Distress from a squeeze on profitability, softer valuations and deteriorating conditions for liquidity was outweighed by positive market sentiment and a slightly improved appetite for risk, keeping the index at low levels compared with the long run average.
- Market fundamentals remain solid, helped by the DAX reaching recent all-time highs.
- However, distress from liquidity is now at its highest level since 2012.
- Distress across German corporates throughout the pandemic remained below the levels experienced in the UK and Spain/Italy.



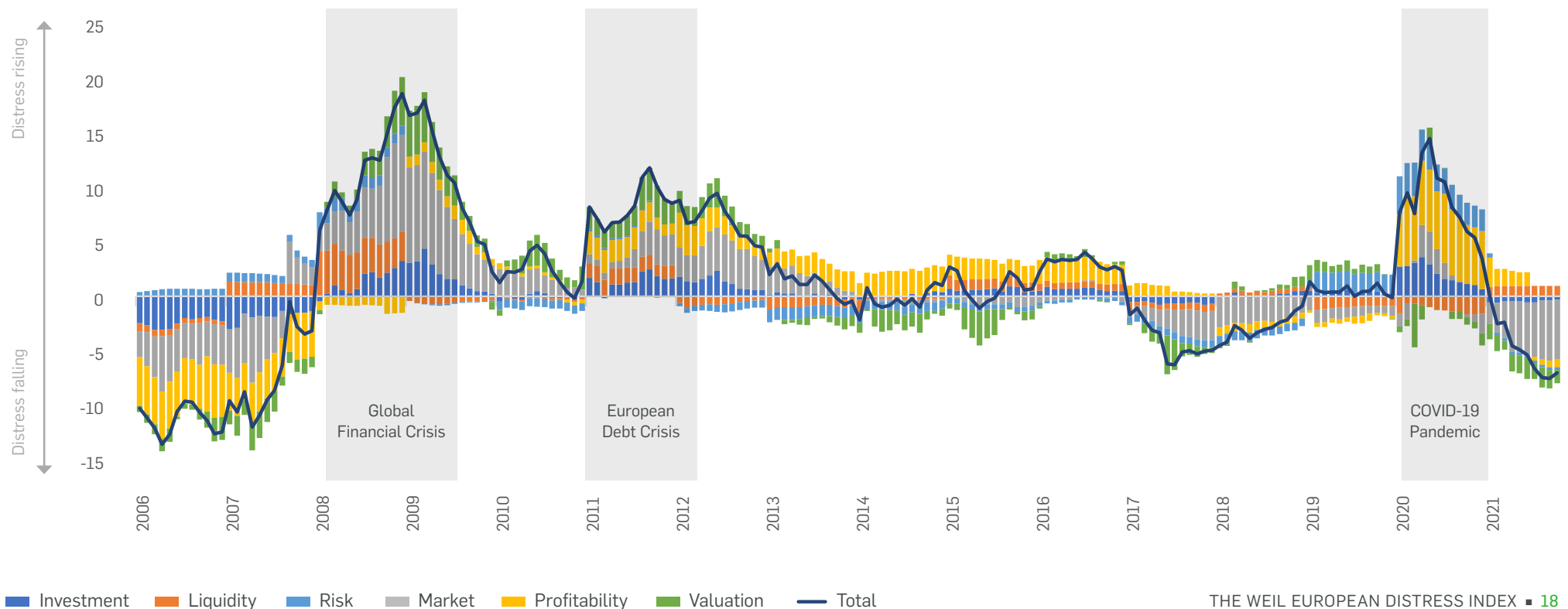
France Distress Index

- Levels of distress across businesses in France reached their highest level since February 2021, as mounting pressure from liquidity and profitability have intensified over the last few months.
- The contribution to distress from liquidity reached its highest level since the global financial crisis in October, reflecting wider conditions seen throughout Europe.
- Ongoing distress from profitability also remains a key feature in the latest period, although levels have tailed-off since the immediate aftermath of the pandemic.
- Nevertheless, the level of distress across France is in negative territory meaning that levels remain below their long run average. This has been helped by strong market fundamentals over the last year.



Spain and Italy Distress Index

- Corporate distress across Spain and Italy fell to decade-lows in recent months, declining sharply on last year's levels when companies continued to feel the effects of the pandemic.
- The latest data reported a marginal uptick in distress levels, driven by pressure on liquidity, but the index remains close to historical lows.
- Initiatives to guarantee government backed loans administered by SACE S.p.A (the Italian Export Credit Agency) and the Spanish Official Credit Institute (ICO) underpinned stability throughout the period to great effect.
- In addition, strong support across market fundamentals and favourable valuations have easily outweighed any pressure from poorer conditions for liquidity.



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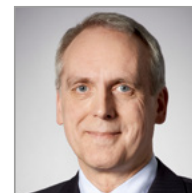
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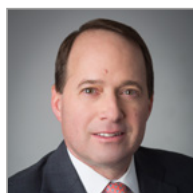


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DECEMBER 2021

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