THE WEIL EUROPEAN DISTRESS INDEX

APRIL 2025

EXECUTIVE SUMMARY

Weil European Distress Index Movements

Index value in Feb 2025	QoQ trend	YoY trend
+3.8	Distress rising from +3.0 in Nov 24	Distress unchanged from +3.8 in Feb 24

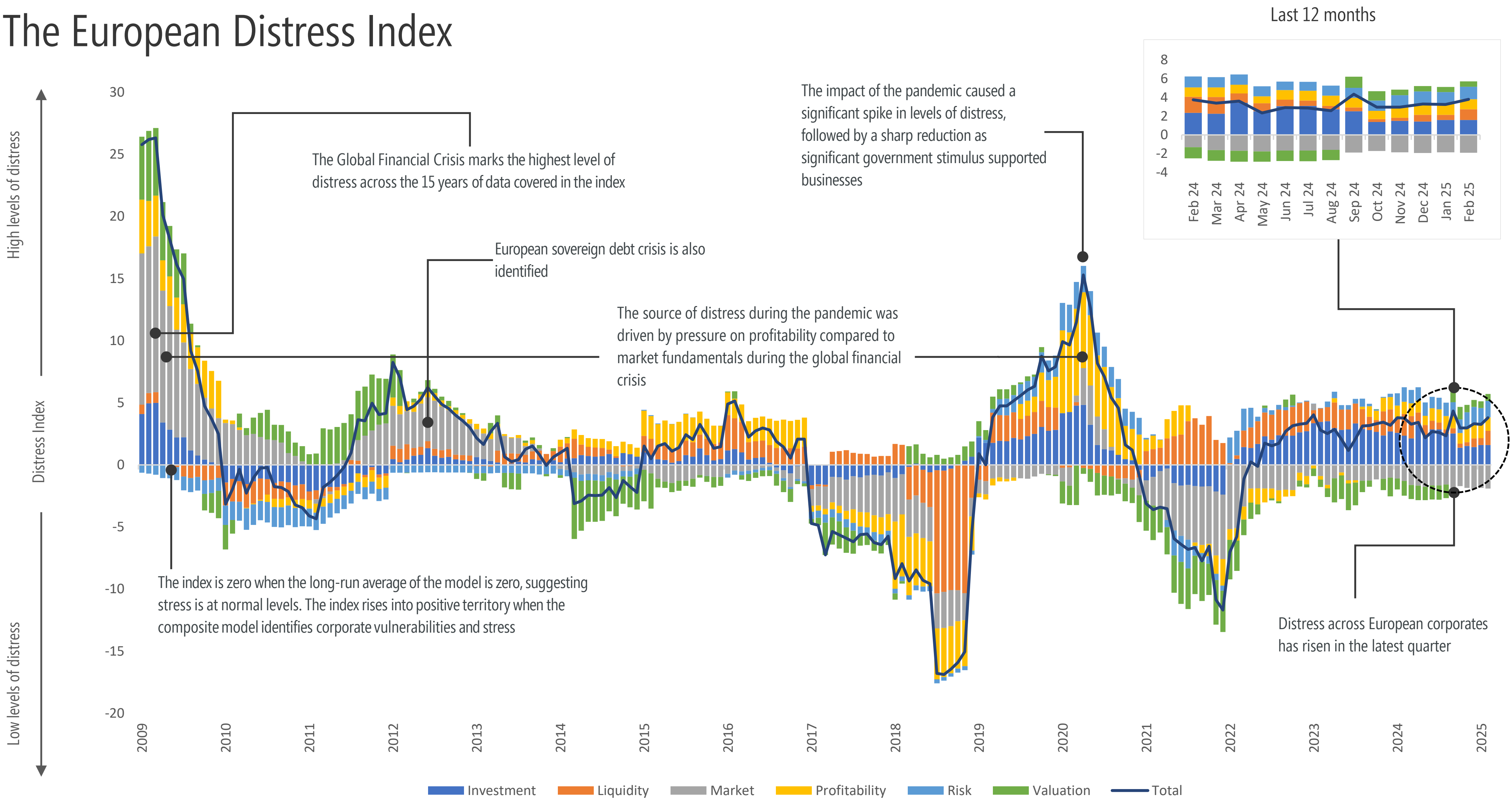
Macro view

- The latest Weil European Distress Index (WEDI) indicates a rise in corporate distress across Europe as of February 2025, increasing to 3.8 from 3.0 in November 2024. Distress is now at the highest level in six months, driven by a rise across Germany and the UK.
- Levels of distress have increased in four of the past five months for the main index, driven by declining confidence and heightened volatility. While the Markets component is the only factor helping to ease distress, its impact is outweighed by all other contributing drivers.
- Germany has remained Europe's most distressed major market, experiencing a further increase to reach its highest level since July 2020, during the early stages of the global pandemic. Key drivers include persistently weak manufacturing output, subdued investment activity and ongoing pressures on liquidity and profitability, exacerbated by tight financial conditions.
- Distress among UK corporates has also risen from the previous quarter to its highest level since September 2023, driven by weaker investment metrics, squeezed liquidity and faltering valuations.
- Elsewhere, corporate distress in France has risen from the previous quarter, primarily driven by pressure on liquidity and weaker investment metrics. Spain/Italy is the only market to show an easing in underlying distress compared with the previous year, although there is a modest rise on the previous quarter.
- The European macroeconomic environment remains challenging. Economic growth for the Euro Area as a whole was stagnant in the final quarter of 2024, following a 0.4% rise in Q3.
- Germany's GDP has contracted by 0.2% in Q4 2024, notably weaker than that of other major economies. The downturn was primarily driven by a negative contribution from net trade, as exports fell 2.2% (vs. -1.9% in Q3). Additionally, household consumption growth slowed to 0.1% (vs. 0.2%), and government spending rose 0.4%, down sharply from 1.5% in Q3.
- France experienced a 0.1% contraction in Q4, while Italy posted modest gains of 0.1% as consumption rose by 0.1% after rising by 0.4% in the previous quarter.
- Meanwhile, the UK reported output rose by 0.1% on quarter in Q4 2024, following no growth in Q3. The services sector increased by 0.2% and the construction sector grew by 0.5%, while production fell by 0.8%, marking a fifth straight quarter of contraction, largely driven by a 0.7% decline in manufacturing.
- Forecasts for economic activity remain challenging. The latest IMF projections show growth in the Euro Area of just 0.8% in 2024, led by Spain which saw a rise of 3.1%. Germany's growth was reported as the weakest in the Euro Area of -0.2%.
- Geopolitical uncertainty has intensified since the previous WEDI report. The threat of escalating protectionist trade policies, the slowdown of global growth and the ongoing threat of wars in Russia/Ukraine and instability in the Middle East have weighed heavily on business sentiment.
- Financial markets have also experienced a high degree of instability in recent weeks, with volatility reaching the highest level in around two years (VIX index) in March.
- In the UK, the Bank of England's Monetary Policy Committee (MPC) cut interest rates again in February, with Bank Rate now at 4.5% following previous cuts in November and August 2024. The Bank also downgraded forecasts for growth to 0.75% in 2025, down from a previous forecast of 1.5%.

Sector view

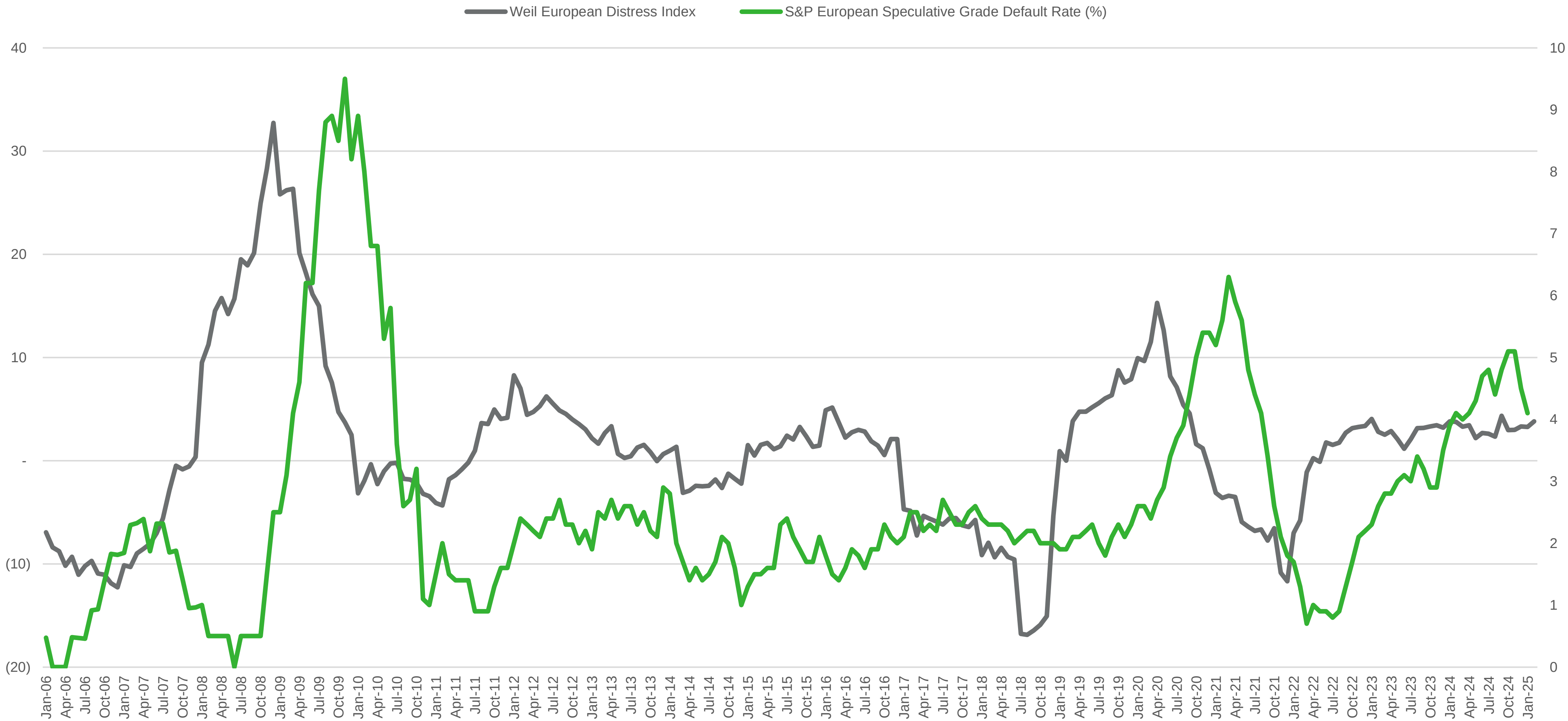
- Key industries such as Industrials, Real Estate and Retail and Consumer Goods remain the most distressed groups.
- Industrials remains the most distressed industry across the index. On a three-month rolling basis, levels of distress are now at their highest in over four years since the pandemic.
- Retail and Consumer Goods has seen the largest quarterly rise in distress levels across all industry groups. It is now the third most distressed sector across those measured, with levels of distress now at the highest levels since 2014.
- Real Estate remained the second most distressed sector, but levels continue to moderate on the previous year and have fallen compared with the previous quarter.
- The ongoing stabilisation of property valuations, adjustments to refinancing costs and greater levels of certainty have helped settle market conditions.
- Healthcare companies have remained above long-term distress levels, although eased sharply on the previous quarter and are much lower than the previous year.

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 WEDI peaks in advance of the S&P European Speculative Grade Default Rate.
- The WEDI tracks the deterioration in financial markets conditions and company performance which occurs in advance of a default wave to provide an early warning indicator.

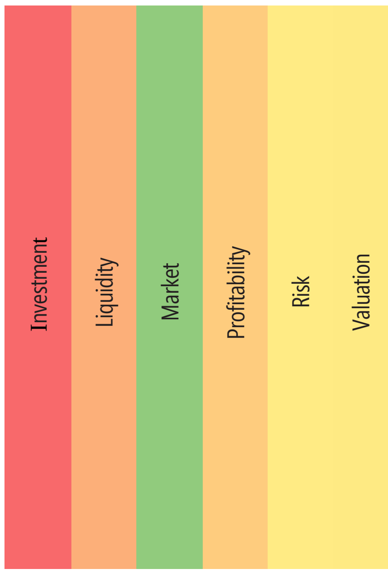


Distress Index February 2025

Most distressed — Least distressed

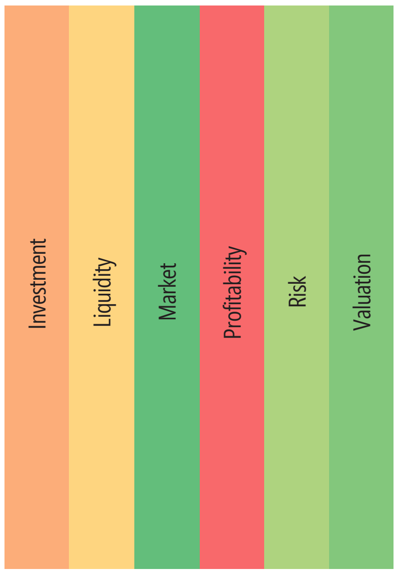
Industrials

Distress ranking	Index value	YoY trend
1	+6.8	↑ +4.6 Feb 24



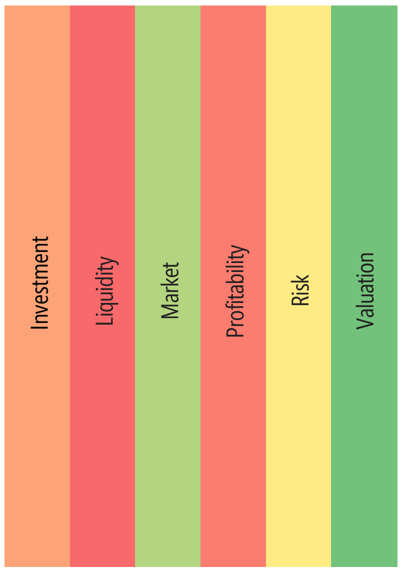
Real Estate

Distress ranking	Index value	YoY trend
2	+5.4	↓ +6.0 Feb 24



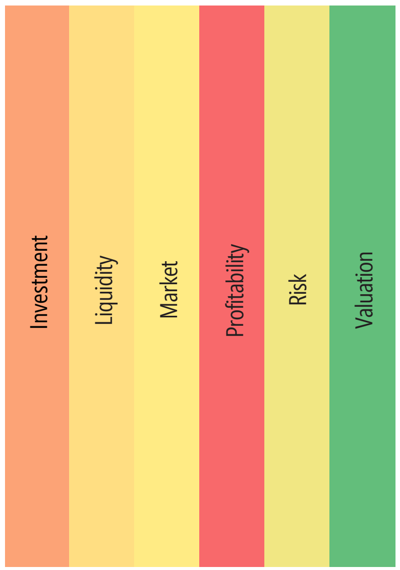
Retail and Consumer Goods

Distress ranking	Index value	YoY trend
3	+4.8	↑ +2.6 Feb 24



Healthcare

Distress ranking	Index value	YoY trend
4	+1.9	↓ +6.3 Feb 24



Infrastructure

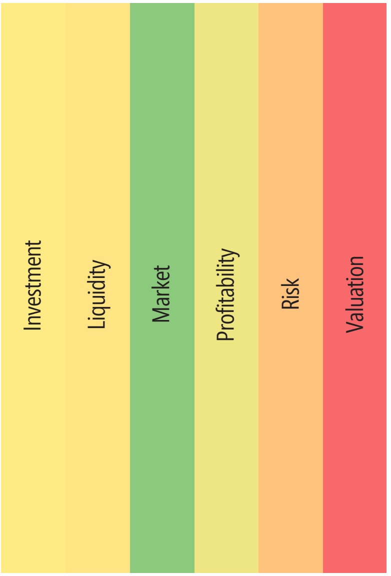
Distress ranking	Index value	YoY trend
5	+0.2	↑ -6.0 Feb 24

Distress Index February 2025

Most distressed — Least distressed

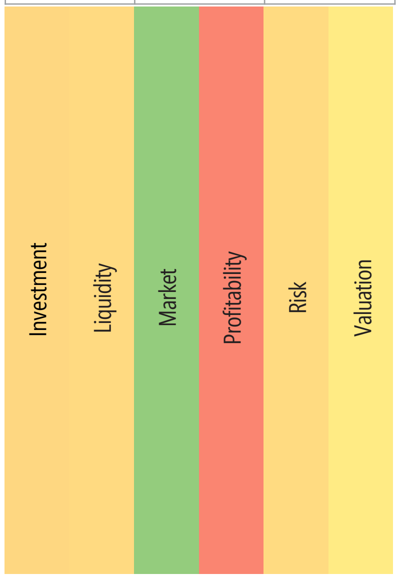
Financial Services

Distress ranking	Index value	YoY trend
6	-1.0	↑ -7.9 Feb 24



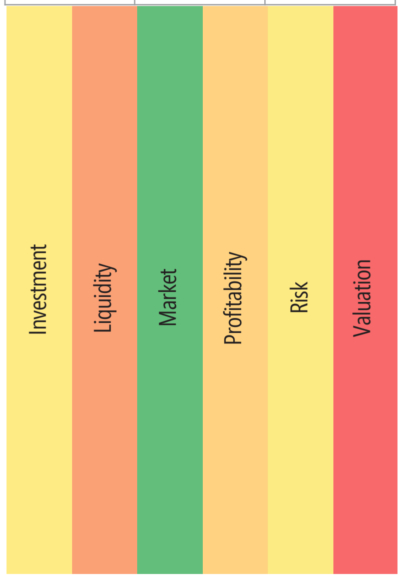
Technology, Media and Telecoms

Distress ranking	Index value	YoY trend
7	-2.0	↑ -5.3 Feb 24



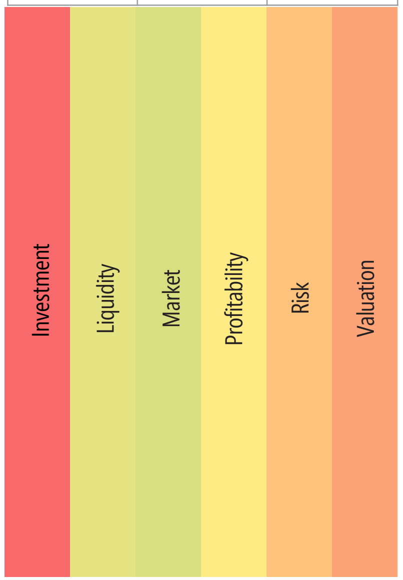
Travel, Leisure and Hospitality

Distress ranking	Index value	YoY trend
8	-2.6	↓ -2.4 Feb 24



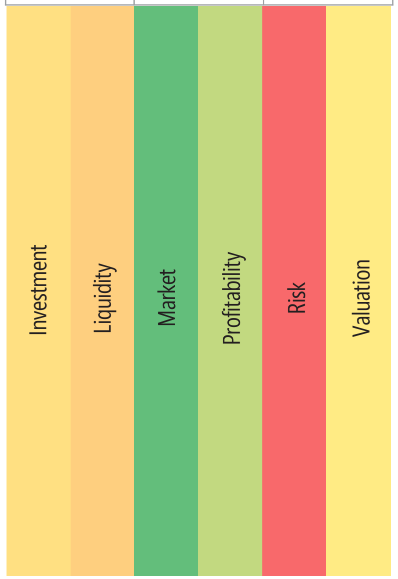
Oil and Gas

Distress ranking	Index value	YoY trend
9	-3.6	↓ -1.9 Feb 24



Commodities and Natural Resources

Distress ranking	Index value	YoY trend
10	-7.6	↑ -8.1 Feb 24



Industrials

The Industrial sector has experienced a significant rise in distress over recent months, reaching its highest three-month rolling level since October 2020. Severe investment pressures have played a key role in driving this increase. The sector's difficulties are linked to higher capital costs, weakening global demand and Germany's heavy reliance on exports.

Real Estate

Real Estate remains the second most distressed sector, although distress levels have moderated compared to the prior quarter and are lower year-on-year. However, concerns persist around heavily leveraged companies facing refinancing challenges due to elevated interest rates, as well as recent data pointing to increasing pressure on profitability.

Retail and Consumer Goods

Distress in the Retail and Consumer Goods sector has increased sharply compared to both the previous quarter and the same period last year, driven mainly by mounting pressures on investment, liquidity and profitability. The sector's distress levels have now reached their highest point since October 2014. Consumer confidence remains weak amid concerns about economic slowdown, elevated living costs and limited savings, which continue to dampen spending.

Healthcare

The Healthcare sector has dropped to the fourth most distressed sector as conditions ease across the industry. Nevertheless, distress remains above the long-run average, as the sector deals with ongoing challenges in managing cash flow.

Infrastructure, Utilities and Power

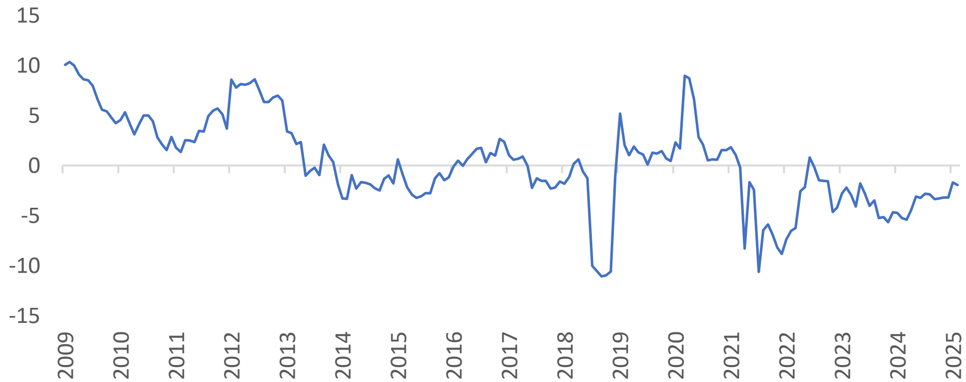
Distress levels in the Infrastructure, Utilities and Power sector have risen notably in recent months, now slightly exceeding the long-term average. This increase is primarily driven by a marked decline in valuations. Rising interest rates and economic uncertainty have likely contributed to weaker investor sentiment and added pressure on asset values.

Financial Services

Although distress in the Financial Services sector is still below its long-term average, it has increased in the latest quarter, and remains significantly higher than this time last year. This is driven by faltering valuations.

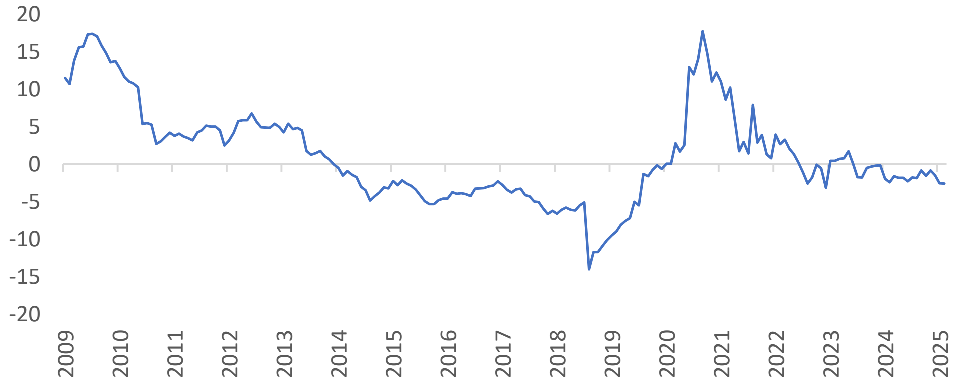
Technology, Media and Telecoms

The Technology, Media and Telecoms sector remains resilient, maintaining distress levels comfortably below the long-term average. Strong market conditions and robust profitability metrics continue to support companies within the industry, keeping distress levels relatively low. Consequently, technology continues to outperform more capital-intensive sectors.



Travel, Leisure and Hospitality

Distress within the Travel, Leisure and Hospitality sector has fallen below the long run average, having moderated significantly since the pandemic. Healthy profitability and investment appetite have helped to push distress levels down. Robust demand for both business and leisure travel has kept overall distress below the long-term average.



Oil and Gas

The Oil and Gas sector has experienced a slight decline in distress, remaining among the least affected industries. However, a slowdown in global demand, a rise in protectionist trade policies and falling oil prices are a key area of future concern.

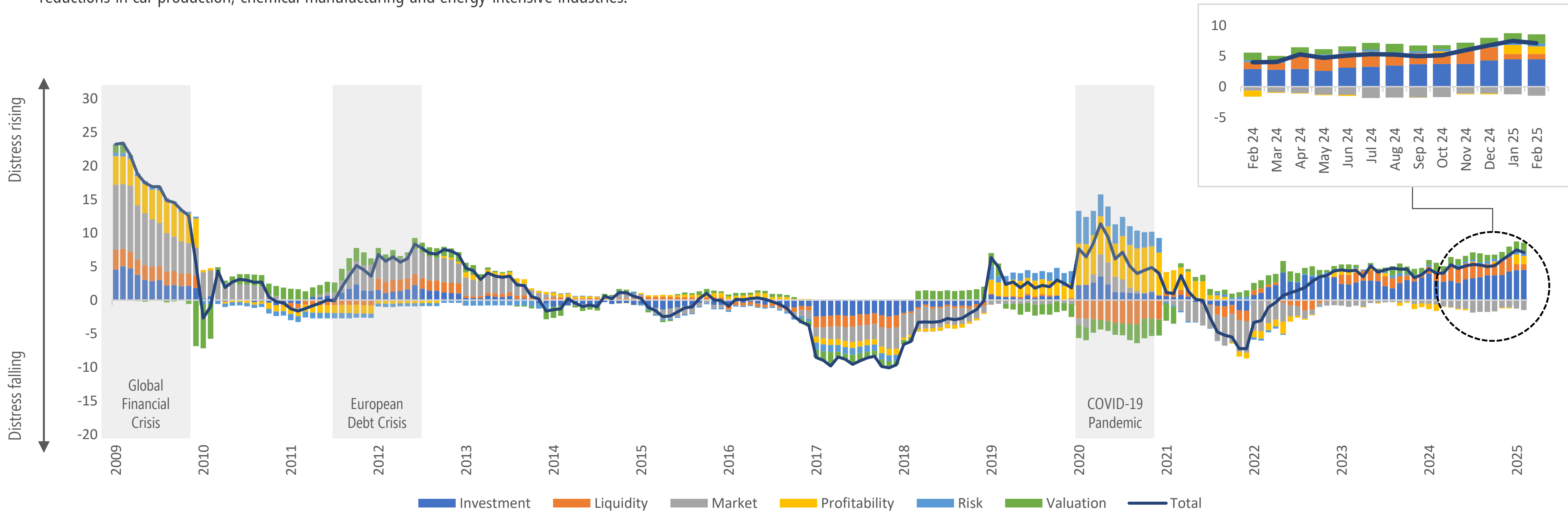
Commodities and Natural Resources

The Commodities and Natural Resources sector remains the least distressed, with distress levels falling compared to the previous quarter. Strong profitability, favourable market conditions and solid liquidity positions have supported its resilience. Despite persistent risks in the global economy, the sector has continued to demonstrate strength and stability.

Distress Ranking	Feb 2025	QoQ Trend	YoY Trend
1	+7.1	+6.0 Nov 24	+4.0 Feb 24

Germany Distress Index

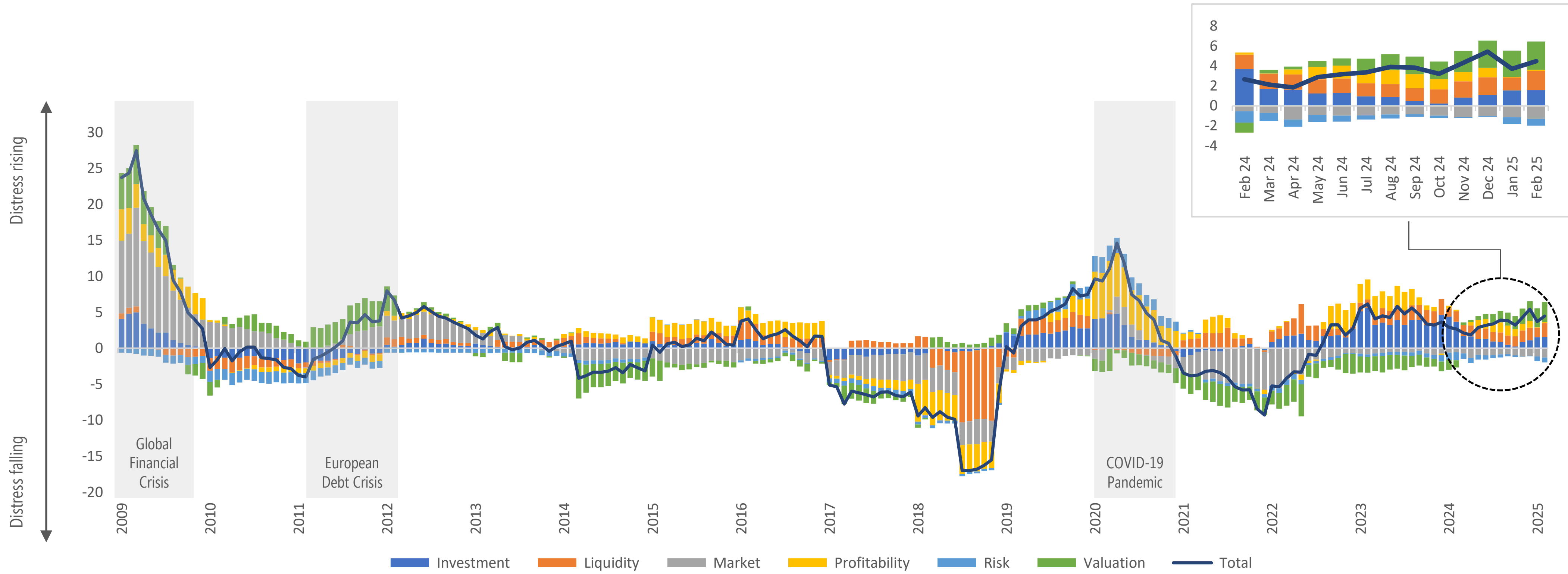
- German corporates continue to face rising levels of distress, with pressures intensifying over the last quarter and higher than the previous year. Levels of corporate distress are now at their highest level since July 2020.
- Key drivers of distress include weaker investment, profitability and faltering valuations. Business confidence remains low, holding back appetite for investment against a backdrop of weakening economic activity.
- The economy has shrunk for a second consecutive year, the first time in more than two decades, highlighting the economic and political challenges.
- The most recent data indicates a substantial decline in manufacturing output in 2024, with gross value added decreasing by 3% compared to the previous year. This downturn was primarily driven by notable reductions in car production, chemical manufacturing and energy-intensive industries.
- The construction sector contracted by 3.8%, affected by rising raw material costs and higher interest rates, which hindered building projects, especially residential developments.
- Although there are indications of improvement, including easing inflation and anticipated wage growth, the broader outlook continues to be difficult. Slightly improved market conditions have provided limited relief, failing to significantly counteract the pressures from subdued investment and tight liquidity.
- While the WEDI had forecast the level of distress in Germany to rise throughout 2025, the most recent data runs ahead of our expectations, reflecting a faster deterioration of conditions than anticipated.



Distress Ranking	Feb 2025	QoQ Trend	YoY Trend
2	+4.5	+3.9 Nov 24	+2.7 Feb 24

United Kingdom Distress Index

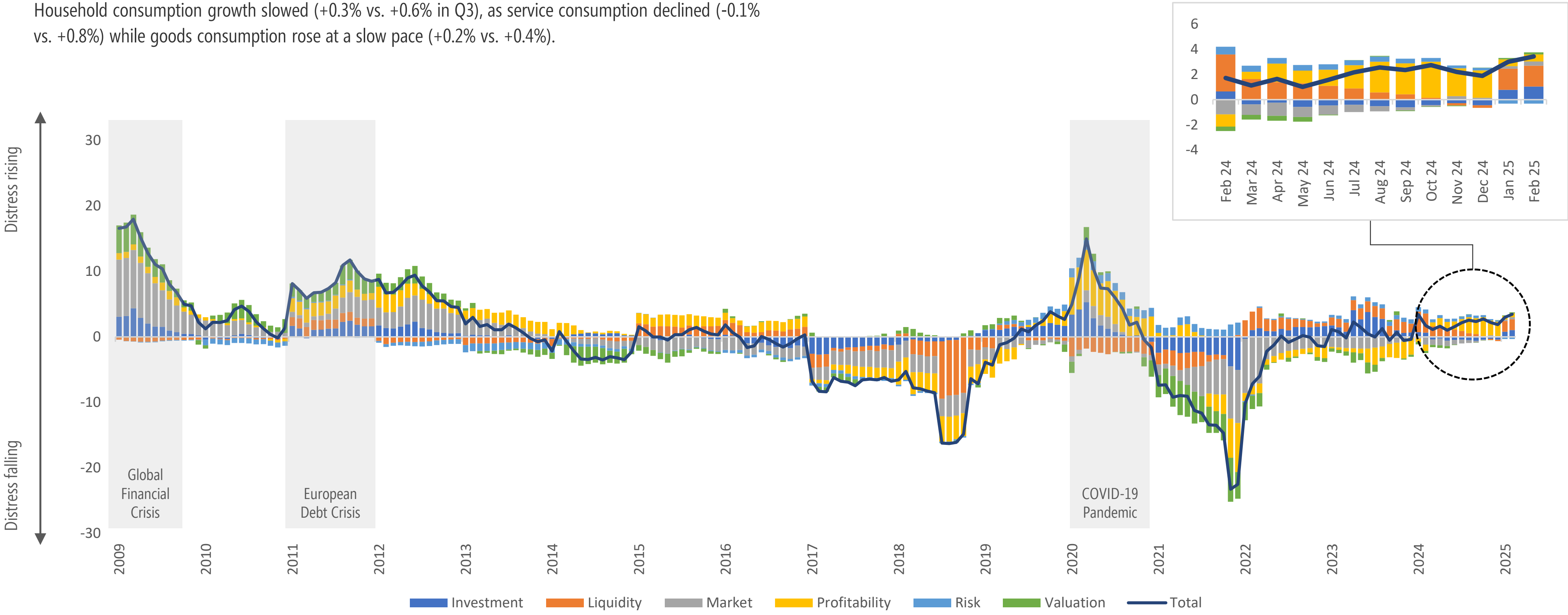
- In the UK, corporate distress has risen slightly over the last quarter, primarily driven by challenges in investment, liquidity and valuation. The UK remains the second most distressed market in the WEDI, with levels rising on the previous year and last quarter.
- GDP growth faltered in the second half of 2024, rising by just 0.1% in Q4, after having flatlined in Q3. Inflation has also risen in recent months, reporting a 3% rise in January, with the Bank of England expecting further rises in the coming months.
- Concerns around investment are likely to heighten due to changes in Employee National Insurance Contributions and the National Living Wage.
- With concerns around a weakening economy, the Bank of England cut interest rates to 4.5% in February, signalling potential further cuts in the coming months, which could restore business confidence.
- However, consumer confidence remains fragile, driven by ongoing challenges around the rising cost of living, economic uncertainty and limited savings.
- Since the previous report, the outlook for the UK economy has weakened. The Bank of England has revised its forecast for growth to 0.75% for 2025, down from 1.5% previously. However, potential interest rate cuts offer hope of a recovery in confidence.



Distress Ranking	Feb 2025	QoQ Trend	YoY Trend
3	+3.4	+2.2 Nov 24	+1.7 Feb 24

France Distress Index

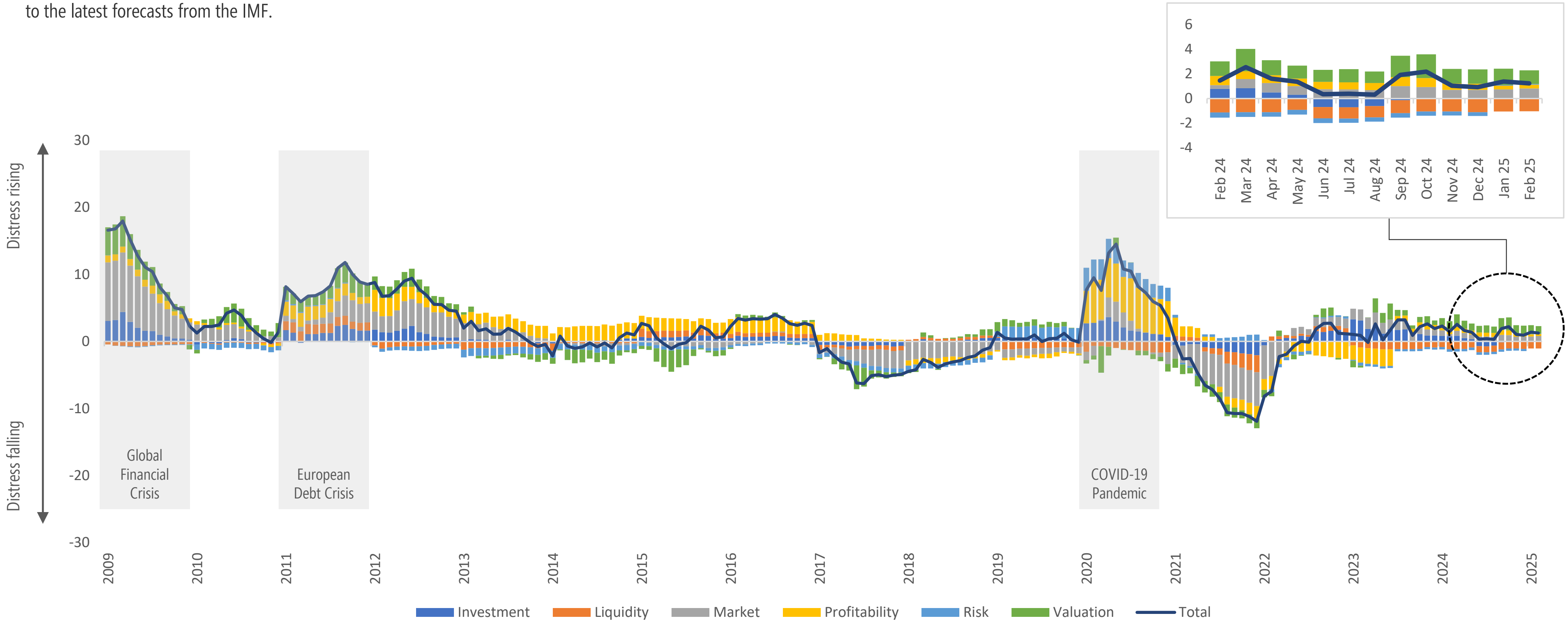
- Distress levels in France remain above the long-run average, rising from the previous quarter, and remains higher than the previous year. Levels have risen to the highest since August 2020.
- Liquidity constraints, cautious attitudes towards risk and subdued investment activity remain the primary challenges in France, although recent indicators suggest some stabilisation. Elevated borrowing costs, weak business sentiment and sluggish economic growth are collectively eroding business resilience amid ongoing political uncertainty.
- The French economy continues to struggle, with GDP falling by 0.1% in the final quarter of 2024. Household consumption growth slowed (+0.3% vs. +0.6% in Q3), as service consumption declined (-0.1% vs. +0.8%) while goods consumption rose at a slow pace (+0.2% vs. +0.4%).
- While conditions have worsened in the latest period, PMI data suggests some signs of future improvement. While the manufacturing sector has remained in contraction, the downturn is the softest in nine months, as output and new orders decline at a slower pace.
- Looking ahead, business confidence has strengthened, reaching its highest level since June 2024. Nonetheless, concerns over the construction sector and political uncertainty have kept optimism subdued.



Distress Ranking	Feb 2025	QoQ Trend	YoY Trend
4	+1.2	+1.0 Nov 24	+1.5 Feb 24

Spain and Italy Distress Index

- Corporates in Spain and Italy continue to experience levels of distress above the long-run average, though they remain the least distressed markets in the WEDI. While levels of distress have risen since the latest quarter, they remain below the already low levels reported last year.
- Interestingly, pressure on liquidity is the only area contributing to distress across Spain/Italy. Broader support is likely to reflect the ongoing strength in the underlying economy, particularly in Spain, and associated business confidence.
- Indeed, Spanish GDP rose by 0.8% in Q4 2024, the fastest across advanced European economies. Indeed, the economy grew by 3.1% in 2024 and is expected to grow by a further 2.3% in 2025 according to the latest forecasts from the IMF.
- Personal consumption has remained the main driver of growth, increasing to 4.2%, the most since Q1 2023. Spending has risen for both goods (6.1%) and services (3.3%).
- Meanwhile, Italy's growth is more subdued, rising just 0.1% in Q4 2024. Consumption has risen by 0.1% after rising by 0.4% in the earlier period, lifted by private consumption (0.1%) as government expenditure has remained unchanged.
- The performance is broadly aligned with our forecasts outlined in the previous WEDI report.



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How do we define 'distress'?

The Weil European Distress Index (WEDI) 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 purposefully 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 WEDI 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, Spain-Italy, and France), 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 WEDI 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 WEDI which reflect one or more symptoms of corporate distress based on comprehensive academic and desk-based research.

The WEDI 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.

Data for the WEDI model are updated on a quarterly basis, incorporating newly available historical observations for each variable included in the analysis. With each refresh, previous estimates of distress are revised in light of the latest information, ensuring that the model's outputs remain accurate and reflective of evolving trends. This iterative revision process enhances the reliability of the model by continuously incorporating the most recent data.

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 includes UK, France, Germany, Spain, Italy, The Netherlands, Republic of Ireland, Belgium, Norway and Portugal